

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 10, 2009

This Preliminary Official Statement has been prepared on behalf of the State of Oregon to provide information about the 2009 Series C Bonds. Selected information is presented on this cover page for the convenience of the users. To make an informed decision regarding the 2009 Series C Bonds, a prospective investor should read this Preliminary Official Statement in its entirety. Unless otherwise indicated, capitalized terms used on the cover page have the meanings given in this Preliminary Official Statement.

**NEW ISSUE - COMPETITIVE
BOOK-ENTRY ONLY**

Fitch: ____
Moody's: ____
Standard & Poor's: ____

\$55,665,000 STATE OF OREGON STATE BOARD OF EDUCATION GENERAL OBLIGATION BONDS 2009 SERIES C

Dated: Date of Delivery

Due: As shown on the inside cover page

Tax-Exempt Bonds

In the opinion of K&L Gates LLP, Bond Counsel to the State of Oregon (the "State"), under existing law interest on the 2009 Series C Bonds is excludable from gross income for federal income tax purposes. Interest on the 2009 Series C Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations; Bond Counsel's opinion is subject to the condition that the State comply with certain requirements of federal income tax law that apply to the 2009 Series C Bonds. In the opinion of Bond Counsel, interest on the 2009 Series C Bonds is exempt from Oregon personal income tax under existing law. See "TAX MATTERS."

Purpose and Authority

The proceeds to be received from the sale of the 2009 Series C Bonds are expected to be used (i) to fund construction grants by the Department of Community Colleges and Workforce Development (the "CCWD") to five community college districts to pay a portion of the costs of the Projects described herein and (ii) to pay costs of issuing the 2009 Series C Bonds. The 2009 Series C Bonds are being issued under authority granted by Article XI-G of the Constitution of the State and applicable provisions of Oregon Revised Statutes, Chapters 286, 288 and 341. The 2009 Series C Bonds are being issued by the State Treasurer pursuant to a Resolution adopted by the State Board of Education (the "Board") on March 19, 2009 and pursuant to an Issuance Certificate of the State Treasurer to be dated as of the date of delivery of the 2009 Series C Bonds.

Security

The 2009 Series C Bonds are general obligations of the State, and the State has pledged its full faith and credit to the payment of the principal of and interest on the 2009 Series C Bonds when due.

Interest Payment Dates

February 1 and August 1, commencing August 1, 2009.

Denominations

\$5,000 and integral multiples thereof.

Redemption

The 2009 Series C Bonds are subject to redemption prior to maturity at the times, under the conditions and at the prices described herein.

Closing/Settlement

The 2009 Series C Bonds are expected to be available for delivery through the facilities of DTC in New York, New York on or about May 6, 2009 ("Date of Delivery").

Legal Counsel

K&L Gates LLP, Portland, Oregon, Bond Counsel to the State; the Oregon Department of Justice, Salem, Oregon Counsel to the State and the CCWD.

Paying Agent

The State of Oregon's Fiscal Agent is currently The Bank of New York Mellon.

MATURITY SCHEDULE

\$55,665,000

**STATE OF OREGON
STATE BOARD OF EDUCATION
GENERAL OBLIGATION BONDS
2009 SERIES C**

| <u>Due</u> <u>August 1</u> | <u>Principal</u> <u>Amount</u>[*] | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>CUSIP No.</u> [†] |
|---------------------------------------|---|--|---------------------|---|
| 2009 | \$1,985,000 | | | |
| 2010 | 1,405,000 | | | |
| 2011 | 1,440,000 | | | |
| 2012 | 1,475,000 | | | |
| 2013 | 1,515,000 | | | |
| 2014 | 1,555,000 | | | |
| 2015 | 1,605,000 | | | |
| 2016 | 1,670,000 | | | |
| 2017 | 1,740,000 | | | |
| 2018 | 1,810,000 | | | |
| 2019 | 1,885,000 | | | |
| 2020 | 1,965,000 | | | |
| 2021 | 2,045,000 | | | |
| 2022 | 2,130,000 | | | |
| 2023 | 2,230,000 | | | |
| 2024 | 2,330,000 | | | |
| 2025 | 2,445,000 | | | |
| 2026 | 2,560,000 | | | |
| 2027 | 2,685,000 | | | |
| 2028 | 2,820,000 | | | |
| 2029 | 2,960,000 | | | |
| 2030 | 3,105,000 | | | |
| 2031 | 3,265,000 | | | |
| 2032 | 3,430,000 | | | |
| 2033 | 3,610,000 | | | |

* Preliminary, subject to change.

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No dealer, broker, salesperson or other person is authorized by the State to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

No website mentioned in this Preliminary Official Statement is part of this Preliminary Official Statement, and readers should not rely upon any information presented on any such website in determining whether to purchase the 2009 Series C Bonds. Any references to any website mentioned in this Preliminary Official Statement are not hyperlinks and do not incorporate such websites by reference.

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the 2009 Series C Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The public offering prices or yields set forth on the inside cover page hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2009 Series C Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover page hereof.

Certain statements contained in this Preliminary Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance is given that any future results discussed herein will be achieved, and actual results may differ materially from any forecasts described herein. In this respect, the words such as “estimate,” “project,” “forecast,” “anticipate,” “expect,” “intend,” “plan,” “believe” and similar expressions identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Preliminary Official Statement.

This Preliminary Official Statement has been prepared on behalf of the issuing agency and the Office of the Oregon State Treasurer. The State of Oregon deems this Preliminary Official Statement to be final as of its date, except for “permitted omissions” as defined in and in accordance with Section 240.15c2-12(b)(1) in Chapter II of Title 17 of the Code of Federal Regulations.

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\$55,665,000

**STATE OF OREGON
STATE BOARD OF EDUCATION
GENERAL OBLIGATION BONDS
2009 SERIES C**

INTRODUCTION

The purpose of this Preliminary Official Statement, including the cover page, inside cover page and appendices, is to provide information in connection with the issuance of the State of Oregon State Board of Education General Obligation Bonds, 2009 Series C (the “2009 Series C Bonds”).

The 2009 Series C Bonds are being issued by the State of Oregon (the “State”) acting by and through the State Treasurer (the “Treasurer”) at the request of the State Board of Education (the “Board”) for the Department of Community Colleges and Workforce Development (the “CCWD”). The 2009 Series C Bonds are direct general obligations of the State to the payment of which the full faith and credit of the State are pledged. See “SECURITY AND SOURCES OF PAYMENT.”

Purpose of the 2009 Series C Bonds

The 2009 Series C Bonds are being issued (i) to fund construction grants by the CCWD to nine community college districts to pay a portion of the costs of projects authorized by the Oregon Legislative Assembly (the “Projects”) and (ii) to pay costs of issuing the 2009 Series C Bonds. See “THE PROJECTS” and “DEPARTMENT OF COMMUNITY COLLEGES AND WORKFORCE DEVELOPMENT.”

Authority for Issuance

The 2009 Series C Bonds are being issued under the authority of Article XI-G of the Oregon Constitution (“Article XI-G”), Oregon Revised Statutes (“ORS”) Chapters 286A and 341, as amended, and Oregon Laws 2007, Chapter 734 and Oregon Laws 2008, Chapter 17 and pursuant to a resolution adopted by the Board on March 19, 2009 and an issuance certificate of the Treasurer to be dated the date the 2009 Series C Bonds are issued (the “Issuance Certificate”).

SECURITY AND SOURCES OF PAYMENT

The 2009 Series C Bonds are direct general obligations of the State. Article XI-G authorizes general obligation bonds (“Article XI-G Bonds”) for the benefit of community colleges in the State (“Article XI-G Community College Bonds”). The 2009 Series C Bonds are Article XI-G Bonds. The State expects to pay the Article XI-G Bonds from legislative appropriations. The State may also issue general obligation bonds under Article XI-G to finance Oregon University System facilities that are not wholly self-supporting (“Article XI-G OUS Bonds”).

Sources of Payment

Other Funds. If moneys from legislative appropriations do not provide sufficient funds to meet future debt service requirements of the 2009 Series C Bonds, the 2009 Series C Bonds may be paid from any undedicated and unrestricted funds of the State. If the Oregon Legislative Assembly (the “Legislative Assembly”) is in session, it may appropriate additional moneys from the General Fund or from other unrestricted sources to pay the debt service on the 2009 Series C Bonds. If the Legislative Assembly is

not in session, the Emergency Board, established under Article III, Section 3 of the Oregon Constitution (the “Emergency Board”), may allocate moneys to pay debt service out of the emergency fund that is appropriated to it by the full Legislative Assembly. See “STATE FINANCIAL OPERATIONS—Budgetary Process” and “DEBT AUTHORITY AND BOND ISSUANCE” in Appendix A.

Property Tax. The State has not imposed property taxes for many years and does not expect that property taxes would be levied to pay the 2009 Series C Bonds. Instead, the State expects that the Legislative Assembly or the Emergency Board would find replacement revenues to pay the 2009 Series C Bonds. However, if by August 15 of any fiscal year, the State does not expect to have sufficient funds available to pay Article XI-G Bonds, the State may impose an annual property tax to pay those bonds. Under ORS 291.445, a certification by the Director of the Oregon Department of Administrative Services of an insufficiency will automatically constitute a State tax levy on property for that fiscal year. See “DEPARTMENT OF COMMUNITY COLLEGES AND WORKFORCE DEVELOPMENT — Community College Bonds and State Grant Program.”

Constitutional Debt Limitation

Article XI-G limits State general obligation bonds outstanding at any one time to three-fourths of one percent (0.75%) of the “true cash value” of taxable property within the State. The amount of true cash value (referred to as “real market value” in Appendix A), as determined by the State Department of Revenue, is the market value of all nonexempt real and personal property in the State as of the valuation date (January 1) for the tax and fiscal year beginning the following July 1. As of January 1, 2007, the true cash value of nonexempt real and personal property in the State was approximately \$501 billion. As of April 1, 2009, approximately \$336 million aggregate principal amount of Article XI-G Bonds, including \$29.8 million of Article XI-G Community College Bonds and \$306.5 million of Article XI-G OUS Bonds, were outstanding. Approximately \$3.4 billion of authorization under Article XI-G was remaining as of April 1, 2009. See “DEPARTMENT OF COMMUNITY COLLEGES AND WORKFORCE DEVELOPMENT – Community College Bonds and State Grant Program” below and “DEBT AUTHORITY AND BOND ISSUANCE” in Appendix A.

Remaining Statutory Authorization

2007-2009 Biennium Authority. State law requires the Legislative Assembly to establish the amount of bonds that may be issued each biennium for purposes other than refunding. During the 2007 Regular Legislative Session, the 2007 Legislative Assembly authorized the issuance during the 2007-2009 biennium of \$52,640,500 of Article XI-G Community College Bonds and during a 2008 Special Legislative Session authorized the issuance of an additional \$4,000,000 of Article XI-G Community College Bonds. In addition, the 2009 Legislative Assembly authorized an increase of \$9,703,750 in the amount of Article XI-G Community College Bonds that may be issued during the 2007-2009 biennium.

After the issuance of the 2009 Series C Bonds and including the additional authority from the 2009 Legislative Assembly, the State will have approximately \$5,779,250 aggregate principal amount of remaining authority to issue additional Article XI-G Community College Bonds for the remainder of the 2007-2009 biennium.

Article XI-G OUS Bonds. Article XI-G OUS Bonds, excluding any amount issued for refunding, also count toward the constitutional limit on the amount of Article XI-G Bonds that may be outstanding at any one time. During the 2007 Regular Legislative Session, the 2007 Legislative Assembly authorized the issuance during the 2007-2009 biennium of \$131,604,535 and during a 2008 Special Legislative Session an additional \$3,500,000 of Article XI-G OUS Bonds. The 2009 Legislative

Assembly authorized the issuance of an additional \$1,944,000 of Article XI-G OUS Bonds for the 2007-2009 biennium.

As of April 1, 2009, the State has approximately \$49,288,535 aggregate principal amount of remaining authority to issue additional Article XI-G OUS Bonds for the remainder of the 2007-2009 biennium.

Request for 2009-2011 Biennium Authority. The Governor has requested that the 2009 Legislative Assembly authorize the issuance of up to \$23,600,000 aggregate principal amount of additional Article XI-G Community College Bonds during the 2009-2011 biennium. The Governor has also requested the 2009 Legislative Assembly to authorize the issuance of up to \$211,113,535 aggregate principal amount of additional Article XI-G OUS Bonds during the 2009-2011 biennium. See “RECENT DEVELOPMENTS—Forecast and Budget Adjustments for the Next Biennium (2009-2011).”

Other State General Obligation Bonds

The Oregon Constitution also authorizes the issuance of general obligation bonds for other purposes. As of March 1, 2009, a total of approximately \$4.6 billion of State general obligation bonds are outstanding. See “DEBT AUTHORITY AND BOND ISSUANCE” in Appendix A for a summary of the State’s outstanding debt obligations, including other outstanding general obligation bonds.

THE 2009 SERIES C BONDS

General

When issued, the 2009 Series C Bonds will be dated their date of delivery and will bear interest from their date at the rates per annum and will mature, subject to redemption prior to maturity, on the dates and in the principal amounts, set forth on the inside cover page of this Preliminary Official Statement. Interest on the 2009 Series C Bonds, calculated on the basis of a 360-day year of twelve 30-day months, will be payable until maturity or upon redemption prior to maturity on February 1 and August 1 of each year, commencing August 1, 2009. The 2009 Series C Bonds are issuable in fully registered form, in denominations of \$5,000 and integral multiples thereof, without coupons. The State’s fiscal agent, currently The Bank of New York Mellon (the “Fiscal Agent”), is to serve as paying agent and registrar for the 2009 Series C Bonds.

When issued, the 2009 Series C Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”). DTC is to act as securities depository for the 2009 Series C Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interests in the 2009 Series C Bonds purchased. So long as Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the registered owner of the 2009 Series C Bonds as nominee of DTC, all payments and notices, including redemption notices, are to be made to DTC or to its nominee and not to the Beneficial Owners of the 2009 Series C Bonds. Except under the heading “TAX MATTERS,” references in this Preliminary Official Statement to “Owners,” “Bondholders” or “Registered Owners” mean Cede & Co. or DTC and not the Beneficial Owners of the 2009 Series C Bonds. In this Preliminary Official Statement, the term “Beneficial Owner” means the person for whom its DTC participant acquires an interest in the 2009 Series C Bonds. See Appendix E for descriptions of DTC and its book-entry system.

If the 2009 Series C Bonds are no longer issued in book-entry form, the Fiscal Agent will be required to mail each 2009 Series C Bond interest payment when due to the registered owner at the address appearing on the 2009 Series C Bond Register as of the fifteenth day of the month preceding a 2009 Series C Bond payment date (the “Record Date”). If payment is so mailed, neither the State nor the Fiscal Agent will have any further liability to any party for such payment.

Optional and Mandatory Redemption

Optional Redemption. The 2009 Series C Bonds maturing on or after August 1, 2020 are subject to redemption prior to maturity at the option of the State, in whole or in part at any time on or after August 1, 2019 (with maturities to be selected by the State and by lot within a maturity) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption.

Mandatory Redemption.

[Mandatory redemption language will be inserted here if the successful bidder elects to have the 2009 Series C Bonds be subject to mandatory redemption, as provided in the Official Notice of Sale.]

[The 2009 Series C Bonds maturing on August 1, 20__ and August 1, 20__ are term bonds subject to mandatory redemption as shown below:

| 2009 Series C Term Bonds Due August 1, 20__* | | 2009 Series C Term Bonds Due August 1, 20__* | |
|---|---------------|---|---------------|
| Year | Principal | Year | Principal |
| <u>(August 1)</u> | <u>Amount</u> | <u>(August 1)</u> | <u>Amount</u> |

* Final maturity.

To the extent the State redeems by optional redemption or purchases for cancellation any 2009 Series C Term Bonds, the State may reduce the mandatory redemption requirements of the 2009 Series C Term Bonds of the same maturity in like aggregate principal amount in the year or years specified by the State.]

Notice and Effect of Redemption. Unless the book-entry-only system is discontinued, notice of any redemption of a 2009 Series C Bond is to be given to DTC not less than thirty days prior to the date fixed for redemption. DTC is responsible for notifying the DTC participants of such redemption notice. The Issuance Certificate provides that except as described in the next sentence in the case of an optional redemption, interest on any 2009 Series C Bond so called for redemption shall cease to accrue on the redemption date designated in the notice. The Issuance Certificate permits any optional redemption to be conditioned upon the receipt by the Fiscal Agent of moneys sufficient to pay the redemption price of such 2009 Series C Bonds or upon the satisfaction of any other condition and permits the State to rescind its notice of optional redemption upon the occurrence of any other event. Notice of such rescission or of the failure of any such condition is to be given by the Fiscal Agent to the affected 2009 Series C Bondowners as promptly as practicable upon the failure of such condition or the occurrence of such other event.

DEPARTMENT OF COMMUNITY COLLEGES AND WORKFORCE DEVELOPMENT

General

In 1959, the Legislative Assembly authorized the formation of education districts, which later became community college districts under ORS Chapter 341. In the 2007-2008 academic year, the 17 community colleges in Oregon served 380,259 students in a variety of programs and courses designed to strengthen academic knowledge and skills, prepare students for entry into and advancement in the workplace, complete undergraduate coursework toward a baccalaureate degree and provide employers with specialized training for their employees.

Oregon's community colleges are administered at the State level by the Board and by the CCWD under ORS Chapters 326 and 341. At the district level, each community college is governed by an independent board composed of seven members who are elected by voters within the boundaries of the community college district.

State Organization and Administration

Together, the Board and the CCWD distribute State aid to community colleges, approve new programs and courses and adopt rules for the general governance of the community college districts in the State.

State Board of Education. The Board establishes education policies and standards for all public elementary and secondary schools and for all public community colleges in the State. The Board, through the Oregon Department of Education (the "ODE"), implements education legislation and State standards for public schools, adopts rules governing public elementary and secondary schools and community colleges and distributes State education funds to school districts meeting all State requirements. All administrative functions of the Board are exercised through ODE, and ODE is required to exercise all administrative functions of the State relating to supervision, management and control of schools not conferred by law on some other agency. The Board is also required by statute to cooperate with the Education and Workforce Policy Advisors in the development of a State comprehensive education plan which includes community colleges. This policy responsibility also applies to the CCWD and to ODE.

The Board consists of seven members who are appointed by the Governor for terms of four years. No person appointed to the Board may serve for more than two consecutive, full terms. In making appointments to the Board, the Governor is required to select one member who resides in each congressional district and the remainder from the State at large. No member of the Board may be engaged in teaching or participate in the administration or operation of any school. Current members of the Board are:

| <u>Board Member</u> | <u>Location</u> | <u>Term Expires</u> |
|--|--|----------------------------|
| Duncan Wyse, Chair | 1st Congressional District | 6/30/2012 |
| Brenda Frank, Vice Chair | 2nd Congressional District | 6/30/2012 |
| Artemio Paz, Jr., 2 nd . Vice Chair | 4 th Congressional District | 6/30/2009 |
| Jerry Berger | 5 th Congressional District | 6/30/2012 |
| Lewis Frederick | 3 rd Congressional District | 6/30/2012 |
| Nikki Squire | At-Large | 6/30/2011 |
| Leslie Shepherd | At-Large | 6/30/2012 |

Department of Community Colleges and Workforce Development. The CCWD functions under the direction and control of the Board. The Commissioner for Community College Services (the “Commissioner”), who is appointed by the Board, serves as an administrative officer for community college matters. The current Commissioner is Cam Preus. The Commissioner, with the approval of the Board, is responsible for the representation of community college interests to the Governor, the Legislative Assembly, other State agencies and others. The Commissioner, with the approval of the Board, is also responsible for submitting community college budget requests and budget reports for the CCWD to the Legislative Assembly. The Board is required by statute to make certain that the budget request for community colleges and for the CCWD is separate and distinct from its other requests to the Legislative Assembly.

An interagency agreement between the CCWD and ODE provides staffing and leadership for community college professional technical education programs. The agreement is designed to ensure equity, continuity, cooperation, and accountability across the education-to-workforce continuum. This agreement designates the Office of Education Instruction Improvement (CCWD/EII) as responsible to the CCWD and to ODE through the Board.

Community College Districts

There are currently 17 community college districts, with more than 60 campuses and centers, located throughout the State. Community colleges are the largest provider of postsecondary education (100,000 enrollments) via distance technology, which includes online classes and other distance learning services, in the State. Table 1 lists the 17 community college districts and their primary campus locations across the State.

**TABLE 1
COMMUNITY COLLEGE DISTRICTS**

| <u>Name</u> | <u>Location</u> |
|---------------------------------------|------------------------|
| Blue Mountain Community College | Pendleton, Oregon |
| Central Oregon Community College | Bend, Oregon |
| Chemeketa Community College | Salem, Oregon |
| Clackamas Community College | Oregon City, Oregon |
| Clatsop Community College | Astoria, Oregon |
| Columbia Gorge Community College | The Dalles, Oregon |
| Klamath Community College | Klamath Falls, Oregon |
| Lane Community College | Eugene, Oregon |
| Linn-Benton Community College | Albany, Oregon |
| Mt. Hood Community College | Gresham, Oregon |
| Oregon Coast Community College | Newport, Oregon |
| Portland Community College | Portland, Oregon |
| Rogue Community College | Grants Pass, Oregon |
| Southwestern Oregon Community College | Coos Bay, Oregon |
| Tillamook Bay Community College | Tillamook, Oregon |
| Treasure Valley Community College | Ontario, Oregon |
| Umpqua Community College | Roseburg, Oregon |

Community college districts in the State derive revenues from three primary sources: State aid, local ad valorem property taxes and tuition and fees. On average, in the 2006 -2007 academic year, State funding represented 44 percent of community college funding for all of Oregon's community college districts combined; local ad valorem property taxes represented 24 percent of community college funding; and tuition and fees represented 32 percent. These percentages are statewide averages and may vary widely from district to district. Based on projections in the State General Fund forecast of December 2008 (see "RECENT DEVELOPMENTS – Revenue Forecasts.") of an additional drop in resources during the 2007-09 biennium, Governor Kulongoski directed the Department of Administrative Services to reduce General Fund budgets across the board by \$142.1 million. In order to implement the allotment rule, each State agency appropriation was reduced by approximately 1.1 percent of its biennial total. This 1.1 percent reduction was applied to the Community College Support Fund.

The Legislative Assembly determines the amount of State funding for community college districts based on a funding formula established by the Board that allocates revenues to community college districts based on the weighted average of full-time equivalent students served by each community college district. Each community college district board determines the amount of its levy for local property taxes on an annual basis, subject to tax rate limitations under Article XI, section 11 and 11b of the Oregon Constitution. Tuition and fees are also established by the board of each community college district, and are not subject to any limits under Oregon law.

Community College Bonds and State Grant Program

Article XI-G authorizes bond proceeds to be used to provide funds with which to construct, improve, repair, equip and furnish buildings, structures and projects, or parts thereof, and to purchase or improve sites therefor, designated by the Legislative Assembly for the Oregon University System or for community colleges. The State Treasurer may issue Article XI-G Community College Bonds at the request of the Board in accordance with the provisions of ORS 286.031 to 286.061 and ORS Chapter 341.

Under ORS 341.009(14), it is the policy of the State to maintain substantial State participation in community college buildings. Under Article XI-G, Section 1(3), funds available under the expenditure limitation for Article XI-G bonds must have a corresponding appropriation by the Legislative Assembly from the General Fund in an amount that is at least equal to the amount of bonds authorized for the same or similar purposes. The budget requests submitted to the Legislative Assembly have included an appropriation of those General Fund moneys for community college capital projects.

The Board requests funds from the State for community college capital construction projects based on five-year capital plans that are prepared and updated by the community college districts. No more than three projects may be submitted by any one community college district and the list may not include projects that are statutorily prohibited (including dormitories and athletic facilities for spectator sports) and must fit with the current administrative rule. Community college capital construction projects are funded from a combination of State funds and local funds of the community college district, which may include tuition, local property tax revenues, district bond issues, gifts, grants or other sources (the "Local Matching Funds"). All of the community colleges participating in the sale have deposited all of their Local Matching Funds in the State's General Fund. The Legislative Assembly has used these moneys to make the corresponding appropriation from the General Fund (described above) for the Article XI-G bond proceeds being provided by the State for the community college's capital project.

Under ORS 341.721, the State Treasurer may not issue Article XI-G bonds for a community college project unless a grant agreement has been entered into between the CCWD and the community college district that is receiving State bond proceeds. Pursuant to the grant agreements between the CCWD and each of the nine community college districts expected to receive proceeds of the 2009 Series C Bonds (collectively, the “Grant Agreements”), the State, through the CCWD, has agreed to provide funds pursuant to ORS Chapter 341 and Oregon Laws 2005, Chapter 764 and 787, Chapter 761, Oregon Laws 2007, 2008 Special Session, Chapter 15, and Senate Bill 338, 2009 Regular Session for the construction of the Projects. Senate Bill 338 was designed as an economic stimulus package providing for the issuance of lottery revenue bonds and Article XI-G bonds to provide funds for deferred maintenance, renovation and construction projects that are meant to stimulate Oregon’s economy through job creation and retention throughout the State as quickly as possible. Each community college district that is expected to receive proceeds of the 2009 Series C Bonds has represented in its Grant Agreement that it has taken all actions required by law to acquire and use the Local Matching Funds and that the Local Matching Funds are now available to be spent on the project.

A community college district must provide an accounting to the CCWD of all funds for any capital construction project or purchase. Financial information for Oregon’s community colleges is collected in the Revenue and Expenditure Report that is submitted by the community college districts to the CCWD each February, in audits, completed for the previous academic year, and in budgets provided to the CCWD following adoption by the district board.

Table 2 shows bond debt service on the Article XI-G Community College Bonds outstanding as of May 6, 2009, including debt service on the 2009 Series C Bonds.

TABLE 2
STATE COMMUNITY COLLEGE
ARTICLE XI-G COMMUNITY COLLEGE BONDS DEBT SERVICE
As of May 6, 2009

| Fiscal Year | Outstanding Bonds | | 2009 Series C Bonds⁽¹⁾ | | Total Debt Service⁽²⁾ |
|--------------------|--------------------------|----------------------|--|----------------------|---|
| | Principal | Interest | Principal | Interest | |
| 2009-2010 | \$ 460,000 | \$ 1,439,642 | \$ 1,985,000 | \$ 1,713,221 | \$ 5,597,863 |
| 2010-2011 | 545,000 | 1,351,832 | 1,405,000 | 2,293,915 | 5,595,747 |
| 2011-2012 | 655,000 | 1,327,832 | 1,440,000 | 2,258,353 | 5,681,185 |
| 2012-2013 | 680,000 | 1,300,257 | 1,475,000 | 2,221,915 | 5,677,172 |
| 2013-2014 | 715,000 | 1,270,557 | 1,515,000 | 2,184,540 | 5,685,097 |
| 2014-2015 | 740,000 | 1,239,582 | 1,555,000 | 2,144,221 | 5,678,803 |
| 2015-2016 | 770,000 | 1,207,432 | 1,605,000 | 2,090,740 | 5,673,172 |
| 2016-2017 | 805,000 | 1,173,882 | 1,670,000 | 2,025,240 | 5,674,122 |
| 2017-2018 | 845,000 | 1,138,732 | 1,740,000 | 1,957,040 | 5,680,772 |
| 2018-2019 | 870,000 | 1,102,010 | 1,810,000 | 1,886,040 | 5,668,050 |
| 2019-2020 | 915,000 | 1,063,395 | 1,885,000 | 1,812,140 | 5,675,535 |
| 2020-2021 | 950,000 | 1,022,553 | 1,965,000 | 1,735,140 | 5,672,693 |
| 2021-2022 | 1,000,000 | 978,915 | 2,045,000 | 1,654,940 | 5,678,855 |
| 2022-2023 | 1,045,000 | 932,036 | 2,130,000 | 1,566,115 | 5,673,151 |
| 2023-2024 | 1,100,000 | 882,065 | 2,230,000 | 1,468,015 | 5,680,080 |
| 2024-2025 | 1,155,000 | 827,863 | 2,330,000 | 1,365,415 | 5,678,278 |
| 2025-2026 | 1,210,000 | 769,588 | 2,445,000 | 1,254,921 | 5,679,509 |
| 2026-2027 | 1,270,000 | 708,388 | 2,560,000 | 1,136,053 | 5,674,441 |
| 2027-2028 | 1,340,000 | 644,556 | 2,685,000 | 1,011,484 | 5,681,040 |
| 2028-2029 | 1,400,000 | 577,463 | 2,820,000 | 880,035 | 5,677,498 |
| 2029-2030 | 1,035,000 | 519,563 | 2,960,000 | 739,835 | 5,254,398 |
| 2030-2031 | 1,085,000 | 471,863 | 3,105,000 | 590,466 | 5,252,329 |
| 2031-2032 | 1,135,000 | 421,913 | 3,265,000 | 432,809 | 5,254,722 |
| 2032-2033 | 1,175,000 | 369,938 | 3,430,000 | 266,250 | 5,241,188 |
| 2033-2034 | 1,240,000 | 312,500 | 3,610,000 | 90,250 | 5,252,750 |
| 2034-2035 | 1,305,000 | 248,875 | | | 1,553,875 |
| 2035-2036 | 1,365,000 | 182,125 | | | 1,547,125 |
| 2036-2037 | 1,440,000 | 112,000 | | | 1,552,000 |
| 2037-2038 | 1,520,000 | 38,000 | | | 1,558,000 |
| TOTALS | \$29,770,000.0 | \$23,635,357. | \$ 55,665,000 | \$ 36,779,093 | \$ 145,849,450 |

⁽¹⁾ Estimated debt service based on average interest rate of approximately 4.5%; subject to change.

⁽²⁾ Preliminary; subject to change.

Source: Department of Community Colleges and Workforce Development.

Table 3 shows the total amount of outstanding and proposed Article XI-G Community College Bonds, the amount of outstanding and proposed Article XI-G OUS Bonds and the amount of remaining bonding capacity under Article XI-G, as of the end of the four preceding fiscal years and as of the date the State expects to issue the 2009 Series C Bonds. The Oregon constitution also authorizes the State to issue general obligation bonds for other purposes. As of March 1, 2009, approximately \$4.6 billion of other general obligation bonds are outstanding. See ” “—Debt Authority and Bond Issuance” in Appendix A for a summary of the State’s outstanding debt obligations, including other outstanding general obligations.

TABLE 3
ARTICLE XI-G BONDED DEBT OUTSTANDING AND CAPACITY

| | <u>June 30, 2005</u> | <u>June 30, 2006</u> | <u>June 30, 2007</u> | <u>June 30, 2008</u> | <u>May 6, 2009</u> |
|---|----------------------|----------------------|----------------------|----------------------|---------------------------|
| Article XI-G Bonded Debt Capacity ⁽¹⁾ | \$2,476,865,390 | \$2,721,178,418 | \$3,257,394,139 | \$3,758,644,876 | \$3,758,644,876 |
| Article XI-G OUS Bonds Outstanding ⁽²⁾ | 175,161,624 | 195,088,995 | 228,081,367 | 232,452,673 | 306,534,885 |
| Article XI-G Community College Bonds | | | | | |
| Outstanding | \$2,675,000 | \$1,700,000 | \$25,955,000 | 25,640,000 | 85,435,000 ⁽³⁾ |
| Percent of Capacity, XI-G bonds | 7.18% | 7.23% | 7.80% | 6.87% | 10.43% |

⁽¹⁾ Bonds issued under Article XI-G of the Constitution are limited to 0.75 percent of the true cash value of statewide property. See “SECURITY AND SOURCES OF PAYMENT.”

⁽²⁾ All zero-coupon/deferred-interest bonds are shown as of their original issue amount with no accreted interest.

⁽³⁾ The amount shown includes the 2009 Series C.

Source: Office of the Treasurer.

THE PROJECTS

The Board plans to use proceeds of the 2009 Series C Bonds (i) to fund construction grants by the CCWD to nine community college districts to pay a portion of the costs of Projects described below and (ii) to pay costs of issuing the 2009 Series C Bonds.

The Projects intended to be financed with the proceeds of the 2009 Series C Bonds and with the Local Matching Funds include the construction, remodeling, expansion and renovation of facilities at the following community colleges.

2009 SERIES C BONDS PROJECTS

| <u>Institution</u> | <u>Project</u> | <u>Estimated 2009 Series C Bond Proceeds</u> |
|---------------------------------|--|--|
| Chemeketa Community College | Classroom & Health Sciences Bldg. & Deferred Maintenance | \$10,707,500 |
| Clackamas Community College | Healthcare Center & Deferred Maintenance | 6,450,000 |
| Clatsop Community College | New Facilities & Renovations | 4,000,000 |
| Klamath Community College | New Facilities | 7,700,000 |
| Lane Community College | Health Building | 6,750,000 |
| Linn – Benton Community College | Science Center Expansion & Renovation | 3,731,250 |
| Mt. Hood Community College | Child Development Center | 2,500,000 |
| Oregon Coast Community College | Expansion - Aquarium South | 3,000,000 |
| Portland Community College | Educational Center & Deferred Maintenance | 10,827,500 |

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are shown below.

Sources of Funds:

| | |
|----------------------------|--------------|
| Principal Amount | \$55,665,000 |
| Net Original Issue Premium | _____ |
| Total Sources | _____ |

Uses of Funds:

| | |
|--|-------|
| Construction Grants | |
| Costs of Issuance (including Underwriters' Discount) | _____ |
| Total Uses | _____ |

RECENT DEVELOPMENTS

Revenue Forecasts

The State Constitution requires the Legislative Assembly to balance the State's General Fund budget. The OEA produces a forecast of projected revenues for the biennium generally each March, June (May in years when the Legislative Assembly is in session), September and December. If, over the course of a biennium, the forecasted revenues decrease significantly from the May forecast (the "close of session forecast" or the "COS forecast"), the Legislative Assembly may meet in special session to rebalance the budget, the Governor may direct that expenditures be reduced or the Legislative Assembly may adjust the budget when it meets in its regular session at the end of the biennium. The Legislative Assembly and the Governor took such steps when revenues dropped substantially during the 2001-2003 biennium and, as described below, the State has begun to take similar steps to balance the budget for the 2007-2009 biennium, which ends on June 30, 2009.

OEA's forecasts are based upon currently available information and upon a wide variety of assumptions. The State's actual results will be affected by future national and State economic activity and other events, including events that are not within the State's control. If the State's assumptions are not realized or if other events occur or fail to occur, the State's financial projections may not be achieved. Especially during this period of economic volatility, it is quite possible that the State's actual revenues for the balance of the 2007-2009 biennium and for the upcoming 2009-2011 biennium will be substantially lower than the State's forecasts.

In the March 2009 Forecast, the OEA projects an employment decline in Oregon of 4.3 percent for 2009, with positive but very weak job gains of 0.04 percent in 2010. OEA does not expect the Oregon economy to begin recovery until the second half of 2010. Oregon's unemployment rate was 10.8 percent in February 2009, seasonally adjusted, as compared to 8.1 percent in the United States as a whole. Additional job losses continue to be announced in the Oregon press, and more are expected.

Forecast and Budget Adjustments for the Current Biennium (2007-2009)

Based upon the March 2009 Forecast, the State anticipates a \$855 million deficit in General Fund revenues for the 2007-2009 biennium if expenditures are not reduced or other measures are not taken to balance the budget. The State anticipates that total available General Fund resources for the 2007-2009 biennium will be approximately \$13.1 billion, which includes \$12.0 billion forecast General Fund revenues plus the remaining \$1.4 billion balance from the 2005-2007 biennium (reduced to \$1.1 billion in available resources due to a \$319 million transfer to the Oregon Rainy Day Fund). This represents a decrease of approximately \$713 million in General Fund revenues from the December 2008 Forecast.

The Governor has ordered all State agencies to reduce their remaining General Fund expenditures by approximately five percent for the remainder of the 2007-2009 biennium. This reduction is being distributed equally among all State agency General Fund appropriations. By law, debt service payments are excluded from these reductions.

Subsequent to the release of the March 2009 Forecast, the Co-Chairs of the Legislative Assembly's Joint Committee on Ways and Means announced a plan to balance the budget for the 2007-2009 biennium by implementing the following measures: (i) spending reductions of \$311 million, primarily in the areas of K-12 education (\$116 million), Other Education (\$65 million), Public Safety (\$56.9 million) and Human Services (\$27.1 million), (ii) contributing \$230 million for Medicaid and \$171 million for education from funds the State expects to be available under the American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009 ("ARRA"), for the current biennium, and (iii)

using \$147.6 million in other available funds, including \$53.2 million that was previously appropriated to the Emergency Fund for the 2007-2009 biennium. The plan also includes \$2.5 million in savings from Executive Branch salary freezes. These changes are, for the most part, included in Senate Bill 5552, which became effective on March 17. See “THE STATE OF OREGON GOVERNMENTAL ORGANIZATION—The Legislative Branch” and “STATE FINANCIAL OPERATIONS—Budgetary Process” in Appendix A.

This plan does not include use of the Rainy Day Fund or the Education Stability Fund. In the March 2009 Forecast, the OEA forecast that at the end of the 2007-2009 biennium the Education Stability Fund will have an ending balance of \$392.3 million and that the Oregon Rainy Day Fund will have an ending balance of \$339.8 million. See “—Oregon Rainy Day Fund” below, and “REVENUES—General Fund Revenues—Reserve Funds—*Education Stability Fund*” and “—*Rainy Day Fund*” in Appendix A. The 2009 Legislative Assembly may modify this plan or raise revenues during its session.

As noted above, the State expects to receive funds under ARRA. These funds, anticipated to total approximately \$2.4 billion, will address critical needs in many areas. Approximately \$1.4 billion of this amount is expected to be available to off-set projected General Fund budget shortfalls in areas such as health care and education. The State expects to have some discretion in when it chooses to use these funds and anticipates allocating a portion of the funds in the current biennium and a portion over the course of the next biennium.

As described below, the State also is considering a number of steps to adopt a balanced budget for the 2009-2011 biennium, which begins on July 1, 2009. The budget for the 2009-2011 biennium will be based upon the May 2009 Oregon Economic and Revenue Forecast (the “May 2009 COS Forecast”).

Forecast and Budget Adjustments for the Next Biennium (2009-2011)

OEA estimated in the March 2009 Forecast that General Fund revenue in the 2009-2011 biennium would be approximately \$13 billion, a \$1.7 billion decline from levels projected in the December 2008 Forecast. General Fund reductions are the result of job losses in most sectors of Oregon’s economy.

On December 1, 2008, the Governor submitted his recommended budget for the 2009-2011 biennium for consideration by the Legislative Assembly. Because the Governor’s proposed budget takes into account the December 2008 Forecast but does not account for the revenue declines in the March 2009 Forecast, the budget will be adjusted by the Legislative Assembly. In his budget, the Governor proposed expenditures of approximately \$14.7 billion from the General Fund and \$1.1 billion from Lottery revenues, including expenditures of \$6.4 billion to fund K-12 education, \$3.6 billion for human services, \$2.7 billion for public safety (including judicial services), \$949.5 million for higher education, \$506.8 million for community colleges and \$673.2 million for other education, with the balance allocated among natural resources, economic development and other programs.

The Governor’s proposed budget represents an increase of approximately \$717.9 million in General Fund and Lottery revenue spending as compared to the 2007-2009 biennial budget (after the five-percent reductions). The proposed budget requests include approximately \$146.7 million of new General Fund revenues to be derived primarily from increases in the corporate minimum income tax and liquor sales taxes. The Governor’s budget includes additional revenues of approximately \$112 million from increases in the cigarette tax of \$0.60 per pack and in the other tobacco products tax of 25-percent, among other changes. Other proposed changes in the Governor’s budget include revisions to taxes on managed care organizations and hospitals, which are scheduled to sunset on September 30, 2009. The proposed changes would restructure the provider taxes to include most insurers, extend taxes on hospitals, and

restructure tax rates for both insurers and hospitals. The Governor also proposed increases in certain transportation-related fees and in the gas tax to provide additional funding for the State Highway Fund, a separate fund dedicated for expenditure on the State's roads. The Governor's budget does not include withdrawing funds from the Oregon Rainy Day Fund or from the Education Stability Fund described below.

The Governor's proposed budget provides for the issuance of up to \$1.4 billion of general obligation bonds, \$2.0 billion of revenue bonds, including Lottery revenue bonds, and \$891 million of additional certificates of participation (in each case, not including bonds or certificates issued to refund outstanding bonds or certificates).

The budget for the 2009-2011 biennium will be based upon the May 2009 COS Forecast. If over the course of the 2009-2011 biennium subsequent OEA forecasts deviate from the May 2009 COS Forecast such that the budget becomes out of balance, the State is required to take action to rebalance the budget as required under the State Constitution. For example, the Legislative Assembly may meet in special session to rebalance the budget, the Governor may direct that expenditures be reduced or the Legislative Assembly may adjust the budget when it meets in its regular session at the end of the biennium.

Oregon Rainy Day Fund

Under the Oregon Constitution, if the amount of General Fund revenues actually received in a biennium exceeds the amount of revenues estimated for the biennium by two percent or more, the excess of any revenues received over the original biennial estimate must be returned to Oregon taxpayers. This return of excess revenues is popularly known as the "kicker." In the 2005-2007 biennium, which ended June 30, 2007, actual revenues exceeded the 2005 COS forecast by the required amount so the State returned approximately \$1.1 billion of personal income taxes to taxpayers at the end of calendar year 2007. Although some corporate income taxpayers received a credit from the State, most of the corporate kicker was diverted by the 2007 Legislative Assembly to the Oregon Rainy Day Fund. See "REVENUES—Reserve Funds" in Appendix A. On September 7, 2007, the State made an initial one-time deposit into the Oregon Rainy Day Fund of \$319.2 million from the corporate kicker. The 2007 Legislative Assembly created the Oregon Rainy Day Fund for use for any General Fund purpose in the event of a downturn in State revenues. With the approval of three-fifths of each house, the Legislative Assembly may appropriate up to two-thirds of the money in the Oregon Rainy Day Fund if certain economic or revenue triggers occur.

The State expects the Oregon Rainy Day Fund to earn and retain interest of approximately \$20.5 million during the 2007-2009 biennium. After the current biennium, the Oregon Rainy Day Fund is to receive biennial deposits from any ending General Fund balance in an amount equal to the lesser of (a) the actual General Fund ending balance for the preceding biennium or (b) one percent of the amount of General Fund appropriations for the preceding biennium. The amount deposited to the Oregon Rainy Day Fund is capped at 7.5 percent of General Fund revenues for a biennium. See "REVENUES—General Fund Revenues—*General Fund Revenue Reduction Due to Income Tax Return (2% Surplus Kicker)*" in Appendix A.

Pension Benefit Programs

The State participates in three retirement pension benefit programs provided through the Oregon Public Employees' Retirement System ("PERS" or the "System") that are commonly referred to as Tier 1, Tier 2, and the Oregon Public Service Retirement Plan ("OPSRP"). For a description of these retirement benefit programs, see "PENSION AND POST EMPLOYMENT BENEFITS" in Appendix A. According

to the PERS actuary, Mercer (US), Inc. (“Mercer”), as of December 31, 2007, the System as a whole was 112 percent funded (an actuarial surplus of approximately \$6.5 billion).

State Funding and Rates. In September 2008, Mercer released the State’s 2007 actuarial valuation report (the “Report”). The Report includes the State’s share of the System’s actuarial accrued liabilities and assets as of December 31, 2007 and provides the State’s employer contribution rates that will be effective from July 1, 2009 through June 30, 2011 (which are based on actuarial valuations as of December 31, 2007). These employer contribution rates were officially adopted by the Public Employees’ Retirement Board (the “PERB”) on September 19, 2008.

Based on the Report, as of December 31, 2007, the State’s share of PERS pension assets were approximately \$15.77 billion and pension liabilities were approximately \$13.6 billion, resulting in an actuarial surplus of approximately \$2.16 billion and a funded ratio of 116 percent.

The 2009-2011 rates for the State are 3.28 percent for Tier 1/Tier 2 participants (currently, 6.54 percent for 2007-2009), 2.84 percent for OPSRP participants – General Services (currently, 8.03 percent for 2007-2009) and 5.55 percent for OPSRP – Police and Fire (currently, 11.30 percent for 2007-2009).

The funded status of the System and of the State as reported by Mercer will change over time depending on a variety of factors, including the market performance of the securities in which the Oregon Public Employees’ Retirement Fund is invested. See “PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs” and Table 20 in Appendix A. Investment returns since June 30, 2008 have been particularly volatile, and between June 30, 2008 and January 31, 2009, the market value of assets in the Oregon Public Employees Retirement Fund decreased from approximately \$60.7 billion to approximately \$44.1 billion.

Other Post-Employment Benefits

In addition to pension benefits, the State provides healthcare benefits (medical, vision and dental) through two programs offered under PERS and one under the Public Employees’ Benefit Board (hereinafter “PEBB”). See “PENSION AND POST EMPLOYMENT BENEFITS” in Appendix A.

Benefits provided through PERS. Under PERS’ Retirement Health Insurance Account (“RHIA”) program, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premiums. As of December 31, 2007 the State’s share of the RHIA UAL (approximately 27 percent) is approximately \$66.5 million. As of December 31, 2007, RHIA was 50 percent funded (an unfunded actuarial accrued liability of approximately \$249 million).

Another subsidy is available to pre-Medicare-age State retirees through the Retiree Health Insurance Premium Account (“RHIPA”) program. As of December 31, 2007, the RHIPA program had an unfunded actuarial liability (the “RHIPA UAL”) of approximately \$15.5 million, representing a funded ratio of approximately 33.6 percent, all of which is allocable to the State.

Benefits provided through PEBB. State retirees not yet eligible for Medicare who do not receive health insurance benefits through PERS may purchase health insurance through PEBB at the same premium amount as active employees. AON Employee Benefits Consulting, the PEBB actuary, estimates that this implicit subsidy results in an unfunded actuarial liability as of July 1, 2007 of approximately \$323.4 million. See “PENSION AND POST EMPLOYMENT BENEFITS—Other Post Employment Benefits—PEBB Retiree Health Insurance Benefit Plan” in Appendix A.

Initiative Petitions

General. The State Constitution, Article IV, Section 1, reserves to the people of the State (1) the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection.

State law permits any person to file a proposed initiative with the Secretary of State's office without payment of fees or other burdensome requirements. Although a large number of initiative measures are submitted to the Secretary of State's office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. Because many proposed initiative measures are submitted that do not qualify for the ballot, the State does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the State does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

Proposed Initiative Measures that Qualify to Be Placed on the Ballot. To place a proposed initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2010 general election, the requirement is eight percent (110,358 signatures) for a constitutional amendment measure and six percent (82,769 signatures) for a statutory initiative. The last day for submitting signed initiative petitions for the 2010 general election is July 2, 2010. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact. Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors. According to the Elections Division of the Secretary of State, the total number of initiative petitions that qualified for the ballot and the numbers that passed in recent general elections are as follows:

| <u>Year of General Election</u> | <u>Number of Initiatives that Qualified</u> | <u>Number of Initiatives that Passed</u> |
|---------------------------------|---|--|
| 1998 | 16 | 6 |
| 2000 | 18 | 8 |
| 2002 | 7 | 3 |
| 2004 | 6 | 2 |
| 2006 | 10 | 3 |
| 2008 | 8 | 0 |

Source: Elections Division, Oregon Secretary of State.

Referendum Petitions and Legislative Referrals

Within 90 days after the end of a legislative session, any person may file a petition seeking to have any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session referred to the voters for their approval or rejection at the next general election, or at a special election provided for by the Legislative Assembly. To place a proposed referendum on the ballot, the proponents must submit to the Secretary of State within 90 days after the end of the legislative session referendum petitions signed by the number of qualified voters equal to four percent of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2010 general election, that requirement is 55,179 signatures. Any elector may sign a referendum petition for any measure on which the elector is entitled to vote. An act approved by the voters through the referendum process becomes effective 30 days after the date of the election at which it was approved. A referendum on part of an act does not prevent the remainder of the act from becoming effective as provided in the act.

Measures 37 and 49

In 2004, Oregon voters approved a citizen initiative (“Measure 37”) that entitled certain landowners either to compensation for the decline in the market value of their property as the result of certain land use regulations enacted or enforced by the State or local governments or to have the land use regulations waived. The State received 6,857 Measure 37 claims requesting more than \$19 billion in compensation. The State waived regulations in lieu of payment for all approved claims that were closed prior to the amendment of Measure 37. No monetary compensation was paid.

In 2007, Oregon voters approved a legislative referral (“Measure 49”) that largely replaced and modified Measure 37. Under Measure 49, Measure 37 claimants are not entitled to monetary compensation. If the claimant has proceeded far enough under Measure 37 to have a “vested right,” the claimant may be entitled to continue to pursue the use authorized pursuant to its original claim under Measure 37. Otherwise, Measure 37 claimants may be allowed either: (1) up to three home-sites, or (2) “conditionally” four to ten home-sites on their property.

The 2007 Legislative Assembly’s referral of Measure 49 to the voters has been challenged in a lawsuit that is currently pending in the Oregon Court of Appeals. In addition, numerous lawsuits were filed asserting that the State’s actions in waiving state laws or denying claims under Measure 37 were unlawful or violated the Oregon Constitution for various reasons, some of which had not been previously considered by the Oregon courts. The courts have dismissed most of the Measure 37 cases as moot due to the passage of Measure 49 and the State expects that the remaining lawsuits also will be dismissed as moot. Some claimants resisted motions to dismiss their Measure 37 cases, contending that Measure 49 does not apply to their claim or is unconstitutional. None of these claimants prevailed in the trial court, but nine appeals are pending in the Oregon Court of Appeals.

In addition, some Measure 37 claimants contend that their Measure 37 waivers were contracts unaffected by the enactment of Measure 49. This issue is being litigated in federal and state courts. A federal court upheld the claimants’ position and that decision will be appealed to the Ninth Circuit Court of Appeals. A state court rejected the claimants’ contract theory and the State anticipates that these cases will be appealed to the Oregon Court of Appeals. There are also two state court cases, challenging the enforceability of judgments against an Oregon county for monetary compensation and attorney fees under Measure 37.

It will take some time before the constitutional and other issues raised regarding Measures 37 and 49 are resolved by the appellate courts. Although the State believes its position is very strong, it cannot guarantee that Measure 49 will be held constitutional or will be held to apply to all Measure 37 claims. Moreover, the State believes claims based on Measure 37 are moot. However, the State cannot guarantee that the final resolution of constitutional and interpretation issues will have no impact on pending or future litigation.

For land use regulations enacted after January 1, 2007, Measure 49 provides either compensation or waivers, as with Measure 37. However, Measure 49 defines the category of land use regulations that are eligible for relief more narrowly. Measure 49 provides for a compensation fund, but there are currently no funds appropriated. Absent legislative appropriation of funds to pay claims, the State expects to deny claims or waive regulations rather than pay compensation. To date, the State has received no Measure 49 claims found to be valid. There can be no assurance, however, that future claims filed will be denied or waived or that the State will not be ordered to pay some claims because of litigation.

LITIGATION

No Litigation Challenging the 2009 Series C Bonds

No litigation is pending against the State or, to the knowledge of the officers of the State charged with issuing the 2009 Series C Bonds, threatened in any court or other tribunal of competent jurisdiction, state or federal, that has more than a reasonable probability of success in any way (1) restraining or enjoining the issuance, sale or delivery of the 2009 Series C Bonds, (2) questioning or affecting the validity of the 2009 Series C Bonds or (3) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2009 Series C Bonds.

Members of the public and advocacy groups from time to time assert that they intend to file a legal action against the State challenging certain programs, laws or actions that the State or its officers or agencies have taken. Because the State cannot be certain as to whether such actions will actually be filed, the legal assertions that may be made in a potential action or the remedy sought in terms of the amount of damages or performance requested of the State, the State includes as threatened litigation only situations in which the State is engaged in active settlement negotiations with a person or advocacy group in order to pre-empt filing of a lawsuit. Further, the State discloses only pending or threatened litigation which the State has determined may have a materially adverse impact on the State's financial position in relation to the bonds offered for sale; for the 2009 Series C Bonds, the current level of materiality involves litigation where the damages or performance sought has a reasonable probability of imposing liability of \$50 million or more against the State's General Fund.

Claims Against the State of Oregon Exceeding \$50 Million

Tobacco Cases

Estate of Williams, Estate of Schwarz v. Philip Morris, Inc.

The State and Philip Morris, Inc. ("Philip Morris"), together with a number of other states and U.S. territories (the "Settling States") and tobacco manufacturers, are parties to a Master Settlement Agreement (the "MSA"). Under the terms of the MSA, the State expects to receive periodic payments from the tobacco manufacturers that will total approximately \$2 billion by the year 2025. Separate tort actions were filed in the State circuit court against Philip Morris on behalf of two decedents claiming their deaths from tobacco-related causes were due to the actions of Philip Morris. The plaintiffs prevailed in

the trial court. The estate of Williams was awarded approximately \$80 million in punitive damages. The estate of Schwarz was awarded approximately \$100 million in punitive damages.

By statute, the State is entitled to 60 percent of all punitive damages awards. Philip Morris twice appealed the award in *Williams* to the Oregon Court of Appeals and the Oregon Supreme Court and then to the United States Supreme Court which set aside the punitive damages and remanded the case back to the State courts for further consideration. Both courts upheld the award on remand. On July 8, 2008, the United States Supreme Court again granted review of the Oregon Supreme Court's decision. The U.S. Supreme Court issued an order on March 31, 2009 holding that it had improvidently granted review of the case. The court, therefore, will not review the case and the ruling of the Oregon Supreme Court remains in place.

Philip Morris appealed the Schwarz decision to the Oregon Court of Appeals. On May 17, 2006, the Court of Appeals held that a jury instruction with respect to the awarding of punitive damages was erroneous. The court vacated the punitive damages award and remanded the case back to the trial court for a new determination of the amount of punitive damages. The plaintiff has petitioned the Oregon Supreme Court for review of the Court of Appeals' decision.

Philip Morris has notified the State that, if it must pay punitive damages in the Oregon cases, and if part of the award is payable to the State, it intends to treat any such payment to the State as a release of, or an offset against, moneys payable to the State under the MSA. The State may receive approximately \$48 million (plus accrued interest on such amount at the rate of nine percent per annum) as part of the punitive damages award from the *Williams* case. In that event, Philip Morris has indicated that the State would receive correspondingly less under the MSA. Any amount offset by Philip Morris would match the punitive damages received by the State. The State disagrees with Philip Morris' position and intends to dispute any future release or offset of moneys owed under the MSA. The dispute between the State and Philip Morris has been assigned to a judge in the Multnomah County Circuit Court. The court, however, has reinstated a stay in the case pending a final decision in the *Schwarz* and *Williams* cases.

Non-participating Manufacturer Claims

Under the MSA, there is a non-participating manufacturers' adjustment ("NPM Adjustment") that operates to reduce the payments of the participating manufacturers ("PMs") under the MSA in the event that the PMs incur losses in market share to non-participating manufacturers ("NPMs") during a calendar year because of the PMs' participation in the MSA. Three conditions must be met to trigger an NPM Adjustment for one or more Settling States: (1) the aggregate market share of the PMs in any year must fall more than two percent below the aggregate market share held by those same PMs in 1997 (a condition that has existed for every year since 2000), (2) a nationally recognized firm of economic consultants must determine that the disadvantages experienced as a result of the provisions of the MSA were a significant factor contributing to the market share loss for the year in question, and (3) the Settling States in question must be proven to not have diligently enforced their Model Statutes.

Beginning with calendar year 2003, each of the three original PMs has notified the Settling States that, in connection with the market share loss for the calendar year, they are seeking an NPM Adjustment. The economic consultants hired to make the significant factor determination, the Brattle Group, have determined that the operation of the provisions of the MSA was a significant factor contributing to the market share losses for each year from 2003 through 2005.

The NPM Adjustment is applied to the subsequent year's annual payments and the decrease in total funds available as a result of the NPM Adjustment is then allocated on a *pro rata* basis among those Settling States that have been found (i) to have not diligently enforced their Model Statutes, or (ii) to have

enacted a Model Statute or Qualifying Statute (an “NPM Statute”) that is declared invalid or unenforceable by a court of competent jurisdiction.

The State of Oregon enacted an NPM Statute and believes that it has been diligently enforcing that statute. The diligence of any state’s enforcement efforts, including Oregon’s, has not been considered by any court. Beginning in April 2006, some of the PMs paid part of their annual MSA payments to an escrow account for disputed amounts instead of to the states. As a result, between 2006 and 2008, Oregon has received approximately \$6 million to \$9 million less in each year than its anticipated payment of approximately \$75 million to \$90 million. It is possible that the PMs will withhold more from the State’s payments in the future.

In April 2006, the State filed suit in Oregon’s Multnomah County Circuit Court against the PMs. Its complaint asserted that the State was entitled to the full amount of MSA payments because the State had enacted, and had diligently enforced, its NPM Statute. Several other states have also filed suits. In August 2006, the court heard a motion by several of the tobacco companies to compel arbitration of the dispute; the court granted the motion and sent the case to arbitration. If in arbitration it is determined that the State has not diligently enforced its NPM Statutes, the full amount of the yearly payment at issue could be deducted by the PMs from the next annual payment that the State is scheduled to receive.

Challenges Related to PERS

Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation that enacted significant changes to PERS. The PERS legislation, among other things, affected the earnings calculation on Tier One members’ accounts; created a new retirement program; blocked further contributions to variable rate accounts; and required updated actuarial tables. The initial challenges to the PERS legislation were consolidated and decided by the Oregon Supreme Court in 2005. Several additional lawsuits, however, remain pending in the Oregon state courts challenging various aspects of the legislative reforms. The United States Court of Appeals for the Ninth Circuit decided the initial federal court challenges to the PERS legislation in October 2006, including one case challenging the updated actuarial tables. The case challenging the actuarial tables remains pending.

The PERS legislation also provided a statutory remedy to a prior case filed by the City of Eugene and other public employers. In that case, the trial court ruled, among other things, that the PERS Board (“PERB”) credited too much in 1999 earnings to certain member accounts. PERS members who intervened in the case appealed the decision. The original parties in the case entered into a settlement agreement in which PERB agreed, among other things, to reduce the 1999 earnings credited to certain member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot and in July 2006, the court vacated the underlying trial court judgment.

The Supreme Court’s decision in the City of Eugene appeal affects certain pending cases that challenge PERB’s actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and PERS legislation. This decision most directly affects a class action suit filed by certain retirees challenging PERB’s recovery of funds from the 1999 earnings over-crediting. The amount at issue is approximately \$800 million. In June 2007, the Multnomah County Circuit court issued an opinion in favor of the retirees who challenged the recovery of the 1999 over-crediting from the recipients of the over-payments. The court determined that the retirees were not liable for repayment of any excess benefits and that the System should treat the over-payments as administrative expenses. A group of retirees moved to amend the Judge’s ruling because it did not address an issue raised by the retirees. The court has taken their request under advisement.

The State is in the process of determining its response to the court's decision. If the State does not prevail, PERS may be required to devise an alternative method to recover the funds. A similar issue is pending in another case filed by non-retired participants whose account balances were lowered to adjust for the 1999 earnings over-crediting. The amount at issue for non-retirees is also approximately \$800 million.

The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed. See "RECENT DEVELOPMENTS—Pension Benefit Programs" and "—Other Post-Employment Benefits," "PENSION AND POST EMPLOYMENT BENEFITS" in Appendix A. The outcome of the pending federal and state cases challenging the actions of the Legislative Assembly and PERB may affect the System's unfunded actuarial liability in the future. Nevertheless, the State believes that, in the pending litigation described above, there are strong legal arguments for upholding the 2003 legislation and PERB's actions.

School Funding Case

In 2006, a group of school districts and students filed a lawsuit against the State, *Pendleton School District 16R et al. v. State of Oregon*, claiming that the Legislative Assembly's funding of public K-12 education was inadequate under Article VIII, sections 3 and 8 of the Oregon Constitution. Section 3 requires the Legislative Assembly to establish a system of common schools. Section 8, adopted in 1999 through an initiative, provides in part that "[t]he Legislature shall appropriate in each biennium a sum of money sufficient to ensure that the State's system of public education meets quality goals established by law, and publish a report that either demonstrates the appropriation is sufficient, or identifies the reasons for the insufficiency...". The Legislative Assembly has enacted a number of statutory goals for the State's public education system. The Governor also created the Oregon Quality Education Commission. The commission is charged with determining the amount of moneys sufficient to ensure that the State's system of K-12 education "meets the quality goals." In 2002 and 2004, the commission issued reports that recommended funding levels that were, respectively, \$1.4 and \$1.8 billion higher than the amount appropriated by the Legislative Assembly. The plaintiffs have asked the court to declare (i) that the Legislative Assembly must appropriate a sum sufficient to maintain an adequate school system and to fund the statutory quality goals and (ii) that the Legislative Assembly failed to appropriate sufficient moneys for the 2005-2007 biennium. Plaintiffs have also requested that the court require the Legislative Assembly to appropriate moneys to meet the quality goals. The State disagrees with the plaintiffs' interpretation of the constitution. The trial court and Oregon Court of Appeals ruled in favor of the State. The plaintiffs appealed the case to the Oregon Supreme Court. On January 23, 2009, the Oregon Supreme Court held that the plaintiffs were entitled to a declaratory judgment declaring that the Legislative Assembly failed to fund the public schools to the required levels in the 2005-2007 biennium. The Court, however, denied the plaintiffs' requests for injunctive and declaratory relief that would have required the Legislative Assembly to appropriate additional moneys. The plaintiffs may ask the court to reconsider its decision.

Challenge to Tort Claims Act Limits

In December 2007, the Oregon Supreme Court upheld a challenge to the constitutionality of parts of the Oregon Tort Claims Act in *Clarke v. Oregon Health Sciences University* ("OHSU"). Under the Act, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the State. The liability of public bodies, however, is capped at \$200,000 for individual claims. In addition, the public body may be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. In *Clarke*, the plaintiff was severely disabled because

of the negligence of health professionals employed at OHSU. The damages alleged amounted to approximately \$12 million.

Article I, Section 10 of the Oregon Constitution provides the right to a remedy to persons who are injured in their person, property or reputation. The Oregon Supreme Court concluded in *Clarke* that, based upon the amount of damages alleged, the substitution of OHSU for the individual plaintiffs, with the resulting \$200,000 cap on the amount of potential recovery, did not provide a substantial remedy to plaintiff in lieu of what he would have been able to claim at common law. Therefore, the substitution of OHSU for the individual plaintiffs, under the facts at issue in *Clarke*, violated Article I, Section 10 of the Oregon Constitution.

The impact of the court's holding in this case on other public bodies, such as the State, is uncertain. Under the Act, the State indemnifies its employees for any liability they incur within the scope of their work. Accordingly, the decision may mean that the State must pay higher amounts to indemnify its employees because the State may not substitute its limited liability for its employees. The State is in the process of assessing its potential exposure to such increased liability amounts, but initial estimates are that the ruling could result in an additional \$75 million in liability costs per biennium. The State self-insures through the State Insurance Fund and is evaluating the impact that the *Clarke* decision may have on the Fund. See "STATE FINANCIAL OPERATIONS—Loss Management" in Appendix A. It is too early to determine a specific course of action the State may take because of the decision in *Clarke*.

Potential Superfund Site Liability

Two State agencies are involved in negotiations related to a non-judicial allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor. The U.S. Environmental Protection Agency (the "EPA") has listed a stretch of the lower Willamette River in Portland, Oregon on its National Priorities List. The boundaries of the Portland Harbor Superfund Site have not been finally delineated but could likely include the 11-mile stretch of the river. There are over 200 parties, private and public, that may eventually bear a share of the costs related to investigation and clean-up of the Portland Harbor Superfund Site. The EPA has not identified any state agency as a potentially responsible party (PRP) at the site, but the Oregon Department of Transportation ("ODOT") and the Oregon Department of State Lands ("DSL") have each received EPA information requests relating to the site and will likely participate in a non-judicial allocation of response costs. ODOT appears to have received a request based primarily on the storm water runoff from state highways. DSL appears to have been identified based on its proprietary administration of State-owned submerged and submersible lands, primarily leasing activities. It is too early in the negotiations and in the EPA's process to know the total amount of liability that may be assessed for clean-up of the river, although initial estimates range from approximately \$600 million to \$1 billion. In addition, it is too early to estimate the proportionate share of liability, if any, that may ultimately be assessed against one or more State agencies among the parties involved in any subsequent allocation.

The Portland Harbor Superfund will also involve a separate but related allocation process for contamination-caused injuries to natural resources administered by tribal, federal and state trustees. The Portland Harbor natural resource trustees are currently assessing these resource injuries and will assert claims against responsible parties. It is also too early to evaluate what, if any, share of liability either ODOT or DSL may ultimately bear for natural resource damages in the Portland Harbor Superfund.

Pro Se Cases

There are also several pro se cases pending against the State in which plaintiffs representing themselves are suing the State for many millions of dollars. The possibility of the State having to pay anything in any of these cases is negligible.

STATE OF OREGON INVESTMENT POLICIES

The Office of the State Treasurer (the “OST”) invests moneys held on behalf of state agencies and participating local governments through an internally pooled investment fund commonly known as the Oregon Short-Term Fund (the “OSTF”). Some of the agency moneys invested through the OST are bond proceeds or moneys used to pay bond debt service. The OST invests the OSTF according to policies established by the Oregon Investment Council (the “OIC”), in conjunction with advice from and in consultations with, the Oregon Short Term Board. The OST may invest the OSTF in longer-term obligations pursuant to policies adopted by the OIC. As of March 31, 2009, the OSTF totaled approximately \$11.176 billion. The primary investment objectives established for the fund are, in order of priority: preservation of principal, liquidity and yield.

The OIC, created by a 1965 legislative act, establishes investment policies for all State funds. The OST is responsible for implementing those policies. The Governor appoints four of the OIC’s five voting members, who are subject to confirmation by the Oregon Senate. The State Treasurer serves by statute.

The Portfolio Rules for the OSTF, adopted by the OIC, allow the following types of investments: Government Obligations (obligations guaranteed by the full-faith and credit of the federal government), Agency Securities (not direct obligations of Treasury but with federal sponsorship or guarantees), domestic commercial paper rated with top-tier short-term ratings by at least two nationally recognized credit rating agencies at the time of purchase (Standard & Poor’s = minimum A 1, Moody’s Investors Service Rating Services = minimum P 1, Fitch Ratings = minimum F1), corporate notes with minimum long-term ratings of AA-, Aa3 or AA- by Standard & Poor’s, Moody’s or Fitch Ratings, respectively, at the time of purchase, certificates of deposit issued by banks in Oregon and insured by the Federal Deposit Insurance Corporation or collateralized according to ORS Chapter 295, negotiable certificates of deposit and banker’s acceptances from domestic commercial banks with minimum long-term ratings of AA-, Aa3 or AA- by Standard & Poor’s, Moody’s or Fitch Ratings, respectively, and repurchase agreements and reverse repurchase agreements that mature in no more than 90 days, are fully collateralized with cash, Government Obligations or obligations of agencies of the federal government and are entered into with primary dealers as recognized by the Federal Reserve Bank or the State’s custodial bank and certain other types of debt or similar instruments. Total weighted average credit quality of the portfolio must be a minimum of AA, Aa2 or AA by Standard & Poor’s, Moody’s or Fitch Ratings, respectively.

The Portfolio Rules also require at least 50 percent of the portfolio to mature within 93 days (where the reset date is used as a proxy for the maturity date for variable rate securities); no more than 25 percent of the portfolio may have a maturity longer than one year; and no investments may have a maturity longer than three years as measured from the settlement date of the initial transaction. There can be no assurance that the Portfolio Rules for the OSTF and the nature of investments in the OSTF will not change in the future.

As of March 31, 2009, the OSTF held the following debt instruments: U.S. Treasury Securities and Government Sponsored Enterprise (“GSEs”) Securities, 40.86 percent; Government Guaranteed Corporate indebtedness, 11.78 percent; domestic commercial paper, bank notes and corporate notes, 46.43 percent; and time certificates of deposit, 0.93 percent. In addition, the State’s custodian, State

Street Bank and Trust Company, periodically lends securities in the OSTF to primary dealers, as recognized by the Federal Reserve Bank, on a fully collateralized basis. As of March 31, 2009 the OSTF and securities lending program had no exposure to Structured Investment Vehicles or any asset-backed or structured security backed by sub-prime loans, loans to borrowers who do not meet government underwriting criteria, or to second lien and home equity loans and had no exposure to collateralized debt obligations. OSTF staff does not anticipate exposure to such securities in the near future.

On September 15, 2008, Lehman Brothers Holdings Inc. (“LEH”) filed for Chapter 11 bankruptcy protection. The OSTF holds two senior unsecured LEH bonds scheduled to mature in 2010 (the “LEH Bonds”). The LEH Bonds represented approximately 1.83 percent of the total OSTF as of February 28, 2009 (measured as a percentage of the total OSTF investment portfolio). The OST currently intends to hold the LEH Bonds and to amortize any gains or losses resulting from the expected recovery value on the LEH bonds, on a straight-line basis, to the stated final maturity of the LEH Bonds. Whether the OST continues to hold the LEH Bonds to maturity will depend, however, on market conditions, the actions of the bankruptcy court and changes, if any, in OST investment strategies. The OST expects that holding the LEH Bonds and amortizing their expected value until maturity will result in a reduced rate of earnings to state agencies and participating local governments.

TAX MATTERS

Federally Tax Exempt Status of the 2009 Series C Bonds

In the opinion of Bond Counsel, interest on the 2009 Series C Bonds is excludable from gross income for federal income tax purposes. Furthermore, interest on the 2009 Series C Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2009 Series C Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2009 Series C Bonds and the facilities financed with proceeds of the 2009 Series C Bonds and certain other matters. The State has covenanted to comply with all applicable requirements.

Bond Counsel’s opinion is subject to the condition that the State comply with the above-referenced covenants and, in addition, will rely on representations by the State and its advisors with respect to matters solely within the knowledge of the State and its advisors, respectively, which Bond Counsel has not independently verified. If the State fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2009 Series C Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2009 Series C Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated in this Tax Matters section, Bond Counsel expresses no opinion regarding any other federal income tax consequences of acquiring, carrying, owning or disposing of the 2009 Series C Bonds. Owners of the 2009 Series C Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2009 Series C Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2009 Series C Bonds should be aware that ownership of the 2009 Series C Bonds may result in collateral federal income tax consequences to certain taxpayers, including,

without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2009 Series C Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2009 Series C Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the 2009 Series C Bonds, are in many cases required to be reported to the Internal Revenue Service (the “IRS”). Additionally, backup withholding may apply to any such payments made to any owner who is not an “exempt recipient” and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel’s opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel’s legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the Issuer’s compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the 2009 Series C Bonds. Owners of the 2009 Series C Bonds are advised that, if the IRS does audit the 2009 Series C Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the State as the taxpayer, and the owners of the 2009 Series C Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2009 Series C Bonds until the audit is concluded, regardless of the ultimate outcome.

Original Issue Premium. The initial public offering price of certain 2009 Series C Bonds may be greater than the amount payable on the 2009 Series C Bonds at maturity. Bond Counsel expresses no opinion with respect to the treatment of this additional amount.

Original Issue Discount. The initial public offering price of certain 2009 Series C Bonds (the “Original Issue Discount Bond”) may be less than the amount payable at maturity. This difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the 2009 Series C Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount 2009 Series C Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount 2009 Series C Bonds.

Oregon Tax Exempt Status of the 2009 Series C Bonds

In the opinion of Bond Counsel, interest on the 2009 Series C Bonds is exempt from Oregon personal income tax under existing law.

RATINGS

Moody's Investors Service, Standard & Poor's and Fitch Ratings (the "Rating Agencies") have assigned their municipal bond ratings of "___" "___," and "___," respectively, to the 2009 Series C Bonds. Certain information was supplied by the State to the Rating Agencies to be considered in evaluating the 2009 Series C Bonds. Credit ratings reflect the views of the representative Rating Agencies and are not a recommendation to buy, sell or hold the 2009 Series C Bonds. Any explanation of the significance of ratings should be obtained directly from the Rating Agencies. There is no assurance that such ratings will be maintained for any given period of time or that they may not be raised, lowered, suspended or withdrawn entirely by the Rating Agencies, if in their judgment, circumstances warrant. Any such downward change in or suspension of or withdrawal of such ratings may have an adverse effect on the market price of the 2009 Series C Bonds. The State has undertaken to provide timely notice of any change in ratings. See "CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12" below.

FINANCIAL ADVISOR

The CCWD have retained Western Financial Group, LLC (the "Financial Advisor"), as financial advisor in connection with the preparation of this Preliminary Official Statement and with respect to the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Preliminary Official Statement.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery of the 2009 Series C Bonds are subject to approval of K&L Gates LLP, Portland, Oregon, Bond Counsel. Certain legal matters relevant to the 2009 Series C Bonds will be passed upon for the Board and for the CCWD by the Oregon Department of Justice as counsel to the Board and the CCWD.

CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

The State, acting by and through the State Treasurer and the CCWD, will undertake in a Continuing Disclosure Certificate for the benefit of registered and beneficial Owners of the 2009 Series C Bonds to provide to each Nationally Recognized Municipal Securities Information Repository, and if and when one is established, the State Information Depository, on an annual basis on or before nine months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2009, certain specified financial information and operating data. In addition, the State and the CCWD will undertake for the benefit of registered and beneficial Owners of the 2009 Series C Bonds to provide to each such repository or to the Municipal Securities Rulemaking Board in a timely manner notices of certain material events. This undertaking is to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission.

The State has complied in all material respects with its previous continuing disclosure undertakings under Rule 15c2-12. However, the State notes that its annual disclosure filings occasionally have been made within nine months after fiscal year end rather than within 270 days as required by some

of the State's continuing disclosure undertakings. The proposed form of Continuing Disclosure Certificate is contained in Appendix D.

MISCELLANEOUS

References are made herein to certain documents and reports of which brief summaries are contained herein. The summaries do not purport to be complete or definitive, and reference is made to the documents and reports for full and complete statements of the contents thereof.

Any statements in this Preliminary Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Preliminary Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the 2009 Series C Bonds. This Preliminary Official Statement is submitted in connection with the sale of the 2009 Series C Bonds and may not be reproduced or used in whole or in part for any other purpose.

By Order of

Ben Westlund
Oregon State Treasurer

/s/ _____
Laura Lockwood-McCall
Director of Debt Management

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APPENDIX A

**GENERAL INFORMATION RELATING TO
THE STATE OF OREGON**

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THE STATE OF OREGON GOVERNMENTAL ORGANIZATION

The Oregon Constitution divides the powers of State government among the Legislative, Executive and Judicial branches.

The Legislative Branch

Oregon has a bicameral Legislative Assembly consisting of the Senate with thirty members elected to serve four-year terms and the House of Representatives with sixty members elected to two-year terms.

The Legislative Assembly convenes its regular session in January of each odd-numbered year. The Constitution does not prescribe session length, but it usually lasts about six months. During a regular legislative session, approximately one-third of the estimated 3,000 bills introduced become law. The Governor or a majority of each house may call special sessions of the Legislative Assembly to deal with emergencies.

The primary functions of the Legislative Assembly are to adopt a budget for all State funds and to enact general laws. The appointment of some Executive officers is subject to confirmation by the Legislative Assembly. Oregon law terminates certain agencies and programs unless the Legislative Assembly specifically approves their continuation. The Legislative Assembly operates a variety of statutory and interim committees throughout the biennium.

The Oregon Constitution, Article IX, Section 6, provides that the State may not budget expenditures in excess of revenues. This “balanced budget” provision requires the Legislative Assembly to appropriate State moneys or adopt expenditure limitations that do not exceed the amount of forecasted revenues the State receives in a biennium. In doing so, the Legislative Assembly generally reviews and revises the Governor’s recommended budget. The State manages its finances on a biennial basis because the Legislative Assembly convenes biennially. At the end of each fiscal year, however, State law requires a financial report of State operations to be prepared. The State’s fiscal year ends June 30.

The Oregon Constitution authorizes the Emergency Board, a joint legislative committee, to meet between legislative sessions to address financial matters of the State arising in the interim period. The seventeen-member Emergency Board consists of the President of the Senate, Speaker of the House of Representatives, Co-Chairpersons of the Joint Ways and Means Committee, six other Senate members and seven other House members. The Emergency Board, which may schedule its own meetings, usually meets once every other month during the interim between regular legislative sessions. If an emergency exists, the Board may allocate additional moneys to any State agency out of funds appropriated to the Board by the Legislative Assembly during its regular session. The Board may also provide moneys for an activity required by law for which no appropriation was made, increase expenditure authority from dedicated or continuously appropriated funds, and approve funding for a new activity coming into existence at a time that would preclude submission of a budget to the Legislative Assembly.

The Executive Branch

The chief executive power of the State is vested in the Governor. The Governor is elected to a four-year term and is limited to serving two terms in any twelve-year period. Ted Kulongoski is in his second term as Governor and is to serve until January 2011. The Governor plans and recommends a budget for almost all of State government to the Legislative Assembly. The Governor also may call

special sessions of the Legislative Assembly and appoint judges to vacant judicial positions. The Governor directly appoints the directors of most State agencies and many other State officials, including the members of approximately 200 State boards and commissions.

The Executive Branch also includes the Administrative Department, which consists of the offices of the Secretary of State and the State Treasurer.

The Secretary of State is a statewide constitutionally elected officer designated as the auditor of public accounts in the State and as the State's chief elections officer. As auditor, the Secretary of State audits or reviews the accounts and financial affairs of State boards, commissions, departments and institutions. The Secretary of State also edits, codifies and publishes administrative rules, which supplement laws passed by the Legislative Assembly and prescribe the manner in which State agencies conduct business.

The State Treasurer is also a statewide constitutionally elected officer. The Treasurer is responsible for all moneys paid into the State Treasury and administers the State's banking, cash flow, borrowing and investment operations. The State Treasurer also chairs or serves on numerous State boards and commissions responsible for investing several State funds and for setting borrowing policies for the State.

The Governor, the Secretary of State and the State Treasurer comprise the State Land Board, established by the Oregon Constitution to manage the Common School Fund and certain lands dedicated at statehood for educational purposes. The Common School Fund's value was approximately \$1.2 billion as of June 30, 2007. Its value fluctuates based on market conditions and the amount of withdrawals. The fund is managed as a perpetual trust fund with approximately two to five percent of its value distributed annually to the State Superintendent of Public Schools for distribution to the State's K-12 public school districts.

In addition to the Offices of the Secretary of State and the State Treasurer, the Executive Branch includes three other offices administered by statewide elected officials. The State Attorney General, who oversees the Department of Justice, manages the State's legal affairs. The Superintendent of Education manages the Department of Education and is in charge of overseeing the State's kindergarten through grade 12 public school system. The Labor Commissioner manages the Bureau of Labor and Industries that oversees and enforces the State's labor and wage laws.

The Judicial Branch

The Oregon Constitution establishes the Judicial Branch and consists of the Supreme Court, Court of Appeals, Tax Court, and 36 Circuit Courts in 27 judicial districts. The Chief Justice of the Oregon Supreme Court administers the State court system and is the head of the Oregon Judicial Department. The Supreme Court has discretionary review of decisions of the Court of Appeals and directly reviews some other matters. The Court of Appeals hears most of the civil and criminal appeals from the Circuit Courts and reviews most State administrative agency actions. The Circuit Courts are Oregon's trial courts of general jurisdiction. The Tax Court is a special one-judge court that has exclusive, statewide jurisdiction to hear only cases involving Oregon's tax laws. All Oregon judges are elected by popular vote. The Governor, however, may appoint judges to fill vacancies that occur.

Services Provided by State Government

The Governor appoints the heads of and coordinates numerous State agencies that provide services through the following program areas: Consumer and Business Services, Economic and

Community Development, Education, Human Resources, Natural Resources, Public Safety, Transportation and Administration.

Consumer and Business Services. Agencies in the consumer and business services program area provide services that protect consumers and workers and promote a positive business climate in Oregon. Several licensing and regulatory boards oversee and regulate the standards and conduct of various professions, such as medical practitioners, real estate agents, tax practitioners and construction and building professionals.

Economic and Community Development. Agencies in this program area, which include the Economic and Community Development Department and Employment Department, provide services that aid businesses and people, including activities that promote job creation, placement and retention services, business recruitment and assistance and workforce assistance and training. The Housing and Community Services Department promotes community development and, together with the Department of Veteran's Affairs, administers housing programs.

Education. Agencies in this program area provide services that operate or support all public educational activities in Oregon from pre-kindergarten to post-secondary and life-long learning. The Department of Education supports pre-kindergarten through 12th grade education by supporting school districts in the areas of school improvement, assessment, special education, professional/technical education, legal requirements, nutrition and transportation. The Department of Community Colleges and Workforce Development coordinates the efforts of 17 community colleges and workforce development programs. The State Board of Higher Education oversees the Oregon University System that consists of the State's seven higher-education institutions. There are also several other boards or commissions that administer scholarships, teacher standards and other education-related programs.

Human-Services. The agencies within the human services program area provide services related to physical health, mental health and addiction, public health, employment and family support to promote self-sufficiency and economic stability, child protective services for abused or neglected children and long-term care for seniors and people with disabilities. The Department of Human Services is responsible for providing most of the services in these areas.

Natural Resources. The agencies within the natural resources program area provide services related to enhancing Oregon's environment, including controlling pollution, overseeing energy, land use and water quality and conservation, promoting markets for Oregon agricultural products, monitoring food safety, assisting forest landowners with forest stewardship and overseeing watershed enhancement and fisheries programs. The Departments of Agriculture, Energy, Environmental Quality, Fish and Wildlife, Forestry, Land Conservation and Development, Parks and Recreation and Water Resources are the largest agencies administering this program area.

Public Safety. Agencies in this program area provide services that protect the public safety of Oregon's people, property and natural resources, through trained militia, law enforcement, prosecution and incarceration of juvenile and adult offenders. The area also includes legal representation of the State's agencies and prosecution of consumer protection laws. The Departments of Corrections, Justice, State Police and Public Safety Standards and Training are some of the agencies included in this program area.

Transportation. Agencies in the transportation program area provide services that promote efficient and safe transportation to maximize Oregon's economic competitiveness and livability. The Department of Transportation is the biggest agency administering transportation programs, including highway, mass transit, railroad and airport improvement projects.

Administration. Agencies in the administration program area provide policy direction and core central services to other State agencies, including: (i) directing State operations and ensuring accountability of public officials and agencies; providing central support services for some State agencies; (ii) managing elections and tax collection activities; (iii) regulating the sale of alcoholic beverages and (iv) working to eliminate social barriers due to race and gender. The largest agencies in this program area are the: (i) Department of Revenue, which implements the State's tax laws; (ii) Public Employees' Retirement System (PERS), which administers the State's and local governments' pension plan and some other post-employment benefits; and (iii) Department of Administrative Services (DAS), which focuses on the efficient and effective administration of State government, including centralization of the State's data and networking infrastructure, procurement activities, and fleet consolidation.

The table below illustrates the amounts budgeted from all State funds during the biennium for each of the above-described program areas. See Table 18 for more detail.

**TABLE 1
BIENNIAL BUDGETS BY PROGRAM AREA**

| <u>Program Area</u> | 2007-09 Legislatively ¹ Adopted Budget (shown in millions \$) |
|----------------------------------|---|
| Education | 13,618 |
| Human Services | 11,779 |
| Public Safety | 2,738 |
| Economic & Community Development | 5,041 |
| Natural Resources | 1,567 |
| Transportation | 3,479 |
| Consumer & Business Services | 876 |
| Administration | 7,922 |
| Legislative & Judicial Branch | 697 |
| Miscellaneous-(Inc. E-Board) | <u>201</u> |
| Total | 47,919 |

⁽¹⁾ Regular session

Employee Relations

For the 2005-07 biennium, there were approximately 47,489 employees providing services through State government, including Higher Education and the Legislative, Executive and Judicial Branches. For the 2007-09 biennium, the State anticipates there will be approximately 50,024 State employees. Approximately 80 percent of the employees in State government are subject to collective bargaining.

State law provides that employees of the State of Oregon and of certain political subdivisions have the right to form, join, and participate in the activities of labor organizations for representation and collective bargaining on matters concerning employment relations. If a labor organization is certified by the State's Employment Relations Board, or is voluntarily recognized by a public employer, it is the exclusive representative of the employees of a public employer for the purpose of collective bargaining. The scope of employee representation may include, but is not limited to, matters concerning wages, hours, vacations, sick leave, grievance procedures, and other conditions of employment. The public

employer or its designated representative must meet and bargain in good faith with respect to employment relations. However, after a 150-day period of good faith contract negotiations, either or both of the parties may notify the Employment Relations Board of an impasse in negotiations and of the need for assignment of a mediator. The parties may agree to request a mediator before the end of the 150-day period by notifying the Board. If the parties do not agree through mediation, a union may strike and the employer may unilaterally implement its last offer.

All State labor contracts expire at the end of each biennium (June 30, every two years) and are re-negotiated for the following biennium. There are 43 bargaining units representing State employees. The two largest unions are the Service Employees International Union (SEIU) and the American Federation of State, County, and Municipal Employees (AFSCME), which collectively represent more than one-half of all State government employees. In November 2006, the State began negotiations with AFSCME, SEIU and other organized labor representatives in connection with the collective bargaining agreements covering represented employees for the next contract period. SEIU and the State signed a new contract, effective through June 30, 2009. Negotiations with AFSCME and all other organized labor representatives have also resulted in signed agreements

ECONOMIC AND DEMOGRAPHIC INFORMATION

Historical Perspective

The Oregon economy has been in transition over the past three decades, diversifying in the process. A predominant concentration in timber harvesting and wood products' manufacturing caused significant job losses in the State during the 1981 recession. Employment growth recovered and remained quite healthy over the next two decades due to an insurgence of high-tech manufacturing. As high-tech manufacturing grew in Oregon, the State also developed stronger ties to major export markets in the Pacific Rim. Population growth exceeded the national rate, fueled by the in-migration of people attracted by the high-paying manufacturing jobs and relatively low cost of living.

Following the business investment-led recession of 2001, the State's reliance on manufacturing activity resulted in three consecutive years of negative job growth. While employment levels then grew strongly during the ensuing economic recovery, the role of manufacturing and high-tech-related sectors was much smaller than in the prior expansion. Sectors of increasing importance have been construction, retail trade, health services, and leisure and hospitality services. Exports continue to be a significant driver for the Oregon economy, nearly doubling since the trough of the last recession. The strong recovery, aided by relatively affordable housing and overall quality of life, has led to continued, strong in-migration of both the young professional and retiree populations. The recent collapse of the national housing market has affected associated Oregon industries, with job losses in wood products and construction. High fuel prices have negatively influenced the transportation equipment industry. While Oregon's housing market has affected by the economic downturn, it is relatively better off compared to California, Nevada, Florida and Arizona. While Oregon did not have the same level of exposure to subprime loans or to overbuilding, housing start data suggests the industry is correcting itself at least as fast as the nation as a whole. Population growth remains above the national average.

Employment

The following two tables compare Oregon and the United States with respect to unemployment rates and the composition of annual average employment.

TABLE 2
UNEMPLOYMENT RATES
OREGON AND UNITED STATES
(ANNUAL AVERAGES, IN THOUSANDS)

| <u>Year</u> | <u>Total Civilian Labor Force</u> | | | | <u>Unemployment Rate as %</u> | |
|-------------|-----------------------------------|---------------------------|----------------------------|---------------------------|-------------------------------|-------------|
| | <u>OR</u> | <u>Percent Change (%)</u> | <u>U.S. ⁽¹⁾</u> | <u>Percent Change (%)</u> | <u>OR</u> | <u>U.S.</u> |
| 1997 | 1,751 | -- | 136,297 | -- | 5.6 | 4.9 |
| 1998 | 1,779 | 1.6 | 137,673 | 1.0 | 5.7 | 4.5 |
| 1999 | 1,796 | 0.9 | 139,367 | 2.4 | 5.5 | 4.2 |
| 2000 | 1,810 | 0.8 | 142,583 | 1.1 | 5.1 | 4.0 |
| 2001 | 1,828 | 1.0 | 143,734 | 0.8 | 6.4 | 4.7 |
| 2002 | 1,844 | 0.8 | 144,863 | 0.8 | 7.6 | 5.8 |
| 2003 | 1,850 | 0.3 | 146,510 | 1.1 | 8.1 | 6.0 |
| 2004 | 1,853 | 0.2 | 147,401 | 0.6 | 7.3 | 5.5 |
| 2005 | 1,866 | 0.7 | 149,321 | 1.3 | 6.2 | 5.1 |
| 2006 | 1,902 | 1.9 | 151,428 | 1.4 | 5.3 | 4.6 |
| 2007 | 1,928 | 1.4 | 153,124 | 1.1 | 5.2 | 4.6 |
| 2008 | 1,958 | 1.7 | 154,287 | 0.8 | 5.8 | 6.4 |

Source: U.S. Bureau of Labor Statistics (Seasonally Adjusted).

(1) Reflects recent revised population controls and/or model re-estimation.

TABLE 3
COMPOSITION OF ANNUAL AVERAGE EMPLOYMENT
OREGON AND THE UNITED STATES
2003 AND 2008

| | <u>2003</u> | | | | <u>2008</u> | | | |
|--|------------------|-------------------|----------------------|-------------------|------------------|-------------------|----------------------|-------------------|
| | <u>Oregon</u> | | <u>United States</u> | | <u>Oregon</u> | | <u>United States</u> | |
| | <u># of Jobs</u> | <u>% of Total</u> | <u># of Jobs</u> | <u>% of Total</u> | <u># of Jobs</u> | <u>% of Total</u> | <u># of Jobs</u> | <u>% of Total</u> |
| Natural resources and mining | 9,400 | 0.6 | 572,000 | .4 | 8,600 | 0.5 | 774,000 | 0.6 |
| Construction | 77,000 | 4.9 | 6,735,000 | 5.2 | 94,600 | 5.5 | 7,215,000 | 5.3 |
| Durable goods manufacturing | 142,900 | 9.1 | 8,964,000 | 6.9 | 142,400 | 8.3 | 8,476,000 | 6.2 |
| Nondurable goods manufacturing | 52,000 | 3.3 | 5,546,000 | 4.3 | 52,700 | 3.1 | 4,955,000 | 3.6 |
| Wholesale Trade | 74,600 | 4.7 | 5,607,500 | 4.3 | 80,000 | 4.7 | 5,964,000 | 4.4 |
| Retail trade | 184,400 | 11.7 | 14,917,300 | 11.5 | 196,600 | 11.4 | 15,356,000 | 11.2 |
| Transportation, warehousing, and utilities | 55,700 | 3.5 | 4,185,400 | 3.2 | 58,900 | 3.4 | 4,505,000 | 3.3 |
| Information | 33,600 | 2.1 | 3,188,000 | 2.5 | 36,100 | 2.1 | 2,997,000 | 2.2 |
| Financial activities | 97,100 | 6.2 | 7,977,000 | 6.1 | 101,800 | 5.92 | 8,146,000 | 5.9 |
| Professional and business services | 170,800 | 10.9 | 15,987,000 | 12.3 | 195,600 | 11.4 | 17,778,000 | 13.0 |
| Educational services | 25,300 | 1.6 | 2,695,100 | 2.1 | 30,400 | 1.8 | 3,036,000 | 2.2 |
| Health care and social assistance | 163,600 | 10.4 | 13,892,600 | 10.7 | 189,600 | 11.0 | 15,819,000 | 11.5 |
| Leisure and hospitality | 151,600 | 9.6 | 12,173,000 | 9.4 | 173,700 | 10.9 | 13,459,000 | 9.8 |
| Other services | 56,700 | 3.6 | 5,401,000 | 4.2 | 61,000 | 3.6 | 5,528,000 | 4.0 |
| Government | <u>279,800</u> | 17.8 | <u>21,583,000</u> | 16.6 | <u>298,000</u> | 17.4 | <u>22,500,000</u> | 16.4 |
| Total Nonfarm jobs ¹ | 1,574,300 | | 129,999,000 | | 1,720,700 | | 137,066,000 | |

Sources: Oregon Employment Department, Oregon Labor Market Information Services; U.S. Bureau of Labor Statistics (Not Seasonally Adjusted)

(1) Totals may not agree with sum of components due to rounding.

Oregon Gross Domestic Product

Oregon Gross Domestic Product (GDP) represents the value of goods and services produced by the State. Additional information about some of the segments of the Oregon economy that contribute to the Gross Domestic Product is provided below. The following table illustrates the changes in the components of the State's GDP over the most recent five-year period.

TABLE 4
OREGON GROSS DOMESTIC PRODUCT
(DOLLARS IN MILLIONS)

| <u>Industry</u> | <u>2002 (\$)</u> | <u>% of Total</u> ¹ | <u>2007 (\$)</u> | <u>% of Total</u> ¹ |
|--|------------------|------------------------------------|------------------|------------------------------------|
| Agriculture, forestry, fishing and hunting | 3,080 | 2.6 | 4,541 | 2.9 |
| Mining | 148 | 0.1 | 226 | 0.1 |
| Utilities | 1,942 | 1.7 | 2,347 | 1.5 |
| Construction | 5,214 | 4.5 | 6,496 | 4.1 |
| Durable goods manufacturing | 13,975 | 11.9 | 25,697 | 16.2 |
| Nondurable goods manufacturing | 4,253 | 3.6 | 4,530 | 2.9 |
| Wholesale trade | 7,667 | 6.5 | 10,440 | 6.6 |
| Retail trade | 7,135 | 6.1 | 8,850 | 5.6 |
| Transportation and warehousing, excluding Postal Service | 3,388 | 2.9 | 4,466 | 2.8 |
| Information | 3,735 | 3.2 | 5,696 | 3.6 |
| Finance and insurance | 6,555 | 5.6 | 8,203 | 5.2 |
| Real estate, rental, and leasing | 16,417 | 14.0 | 20,514 | 13.0 |
| Professional and technical services | 5,712 | 4.9 | 7,962 | 5.0 |
| Management of companies and enterprises | 2,086 | 1.8 | 2,838 | 1.8 |
| Administrative and waste services | 3,120 | 2.7 | 4,174 | 2.6 |
| Educational services | 748 | 0.6 | 1,092 | 0.7 |
| Health care and social assistance | 8,557 | 7.3 | 12,056 | 7.6 |
| Arts, entertainment, and recreation | 857 | 0.7 | 1,072 | 0.7 |
| Accommodation and food services | 2,914 | 2.5 | 4,006 | 2.5 |
| Other Services, except government | 2,717 | 2.3 | 3,677 | 2.3 |
| Government | 16,909 | 14.4 | 19,351 | 12.2 |
| Total Oregon GDP ¹ | 117,129 | | 158,234 | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(1) Totals may not agree with sum of components due to rounding.

Residential Construction

The following table shows the number of Oregon residential building permits issued over the last ten years.

TABLE 5
OREGON RESIDENTIAL BUILDING PERMITS

| <u>Year</u> | <u>Single-Family Dwellings</u> | <u>Percent Change (%)</u> | <u>Multi-Family Dwellings</u> | <u>Percent Change (%)</u> |
|--------------------|---|--------------------------------------|--|--------------------------------------|
| 1998 | 16,936 | -- | 9,481 | -- |
| 1999 | 16,595 | -2.0 | 6,973 | -26.4 |
| 2000 | 15,619 | -5.9 | 4,467 | -35.9 |
| 2001 | 16,323 | 4.5 | 5,321 | 19.1 |
| 2002 | 17,413 | 6.7 | 5,028 | -5.5 |
| 2003 | 17,875 | 2.7 | 7,440 | 48.0 |
| 2004 | 20,728 | 16.0 | 6,860 | -7.8 |
| 2005 | 23,840 | 15.0 | 7,480 | 9.0 |
| 2006 | 19,859 | -16.7 | 7,092 | -5.2 |
| 2007 | 15,310 | -22.9 | 5,791 | -18.0 |
| 2008* | 7,793 | -49.1 | 4,414 | -23.8 |

Source: U.S. Census Bureau.

- Preliminary data, subject to change.

International Trade and Exports

International trade is an important component of the State's economy. The State's geography and natural resources have been instrumental in the development of the State's international trade activities. The State has twenty-three port districts all located on navigable waterways. The majority of the State's international trade occurs through the Port of Portland. Other important ports are located at the coastal cities of Astoria, Newport and Coos Bay. A strong global economy and a weakening U.S. dollar are behind the strong growth in U.S. and Oregon exports. The following two tables show Oregon's top exports by industry and Oregon's major trading partners in 2003 and 2008.

TABLE 6
OREGON EXPORTS BY INDUSTRY
(DOLLARS IN MILLIONS, CALENDAR YEAR)

| | <u>2003 (\$)</u> | <u>% of Total</u> | <u>2008 (\$)</u> | <u>% of Total</u> |
|-----------------------------------|------------------|-------------------|------------------|-------------------|
| Computer and Electronics Products | 4,602.5 | 44.5 | 7,990.2 | 41.3 |
| Agricultural Products | 1,284.5 | 12.4 | 2,812.1 | 14.5 |
| Machinery, except Electrical | 870.8 | 8.4 | 1,625.6 | 8.4 |
| Transportation Equipment | 1,115.7 | 10.8 | 1,461.1 | 7.5 |
| Chemicals | 410.2 | 4.0 | 1,260.4 | 6.5 |
| Primary Metal Manufacturing | 164.6 | 1.6 | 704.0 | 3.6 |
| Waste and Scrap | 123.7 | 1.2 | 568.4 | 2.9 |
| Wood Products | 297.5 | 2.9 | 466.9 | 2.4 |
| Paper | 253.0 | 2.4 | 419.5 | 2.2 |
| Food and Kindred Products | 280.2 | 2.7 | 393.6 | 2.0 |
| Other | 944.2 | 9.1 | 1,661.0 | 8.6 |
| Total All Industries | 10,346.7 | | 19,362.7 | |

Source: Office of Economic Analysis, WISER.

TABLE 7
OREGON EXPORTS TO MAJOR TRADING PARTNERS
(DOLLARS IN MILLIONS, CALENDAR YEAR)

| | <u>2003</u> | <u>% of Total</u> | <u>2008</u> | <u>% of Total</u> |
|----------------------------|-----------------|-------------------|-----------------|-------------------|
| Canada | 1,567.3 | 15.1 | 2,800.8 | 14.5 |
| China (Mainland) | 574.9 | 5.6 | 2,468.8 | 12.8 |
| Japan | 1,275.9 | 12.3 | 2,016.4 | 10.4 |
| Malaysia | 515.3 | 5.0 | 1,989.5 | 10.3 |
| Korea, Republic Of | 1,363.3 | 13.2 | 1,252.6 | 6.5 |
| China (Taiwan) | 602.0 | 5.8 | 1,110.5 | 5.7 |
| Philippines | 767.3 | 7.4 | 906.2 | 4.7 |
| Mexico | 393.6 | 3.8 | 747.8 | 3.9 |
| Costa Rica | 237.4 | 2.3 | 715.8 | 3.7 |
| Germany | 321.8 | 3.1 | 399.8 | 2.1 |
| Netherlands | 175.0 | 1.7 | 396.3 | 2.0 |
| Brazil | 257.2 | 2.5 | 345.4 | 1.8 |
| France | 208.5 | 2.0 | 338.5 | 1.7 |
| United Kingdom | 208.7 | 2.0 | 338.4 | 1.7 |
| Australia | 241.8 | 2.3 | 327.2 | 1.7 |
| Other | 1,647.3 | 15.9 | 3,208.9 | 16.6 |
| Total All Countries | 10,357.2 | | 19,362.7 | |

Source: Office of Economic Analysis, WISER.

Manufacturing

As shown on Table 3 Oregon manufacturing employment declined from 12.4 percent of total employment in 2003 to 11.4 percent in 2008. Manufacturing GDP, however, increased from 15.5 percent of total GDP in 2002 to 19.1 percent in 2007. It is expected that when 2003 and 2008 data is available a similar increase in manufacturing GDP will be illustrated.

Income

The following two tables compare Oregon and the United States with respect to personal income and per capita income from 1998 to 2008.

**TABLE 8
PERSONAL INCOME
(DOLLARS IN MILLIONS, CALENDAR YEAR)**

| <u>Year</u> | <u>Oregon (\$)</u> | <u>Percent Change (%)</u> | <u>U.S. (\$)</u> | <u>Percent Change (%)</u> | <u>Oregon as a % of U.S.</u> |
|--------------------|---------------------------|--------------------------------------|-------------------------|--------------------------------------|---|
| 1998 | 85,629 | 5.9 | 7,415,709 | 6.3 | 1.15 |
| 1999 | 89,873 | 5.0 | 7,796,137 | 5.1 | 1.15 |
| 2000 | 96,402 | 7.3 | 8,422,074 | 8.0 | 1.14 |
| 2001 | 99,020 | 2.7 | 8,716,992 | 3.5 | 1.14 |
| 2002 | 101,882 | 2.9 | 8,872,871 | 1.8 | 1.15 |
| 2003 | 105,161 | 3.2 | 9,150,320 | 3.1 | 1.15 |
| 2004 | 109,718 | 4.3 | 9,711,363 | 6.1 | 1.13 |
| 2005 | 114,379 | 4.2 | 10,252,973 | 5.6 | 1.12 |
| 2006 | 123,857 | 8.3 | 10,978,053 | 7.1 | 1.13 |
| 2007 | 131,278 | 6.0 | 11,634,322 | 6.0 | 1.13 |
| 2008 | 136,277 | 3.8 | 12,086,534 | 3.9 | 1.13 |

Source: U.S. Bureau of Economic Analysis, Department of Administrative Services.

TABLE 9
PER CAPITA INCOME
(CALENDAR YEAR)

| <u>Year</u> | <u>Oregon (\$)</u> | <u>Percent Change (%)</u> | <u>U.S. (\$)</u> | <u>Percent Change (%)</u> | <u>Oregon as a % of U.S.</u> |
|-------------|--------------------|-------------------------------|------------------|-------------------------------|----------------------------------|
| 1998 | 25,542 | 4.4 | 26,883 | 6.1 | 95.01 |
| 1999 | 26,480 | 3.7 | 27,939 | 3.9 | 94.78 |
| 2000 | 28,099 | 6.1 | 29,847 | 6.8 | 94.14 |
| 2001 | 28,530 | 1.5 | 30,582 | 2.5 | 93.29 |
| 2002 | 28,960 | 1.5 | 30,838 | 0.8 | 93.91 |
| 2003 | 29,607 | 2.2 | 31,530 | 2.2 | 93.90 |
| 2004 | 30,679 | 3.6 | 33,157 | 5.2 | 92.53 |
| 2005 | 31,580 | 2.9 | 34,690 | 4.6 | 91.03 |
| 2006 | 33,648 | 6.5 | 36,794 | 6.1 | 91.45 |
| 2007 | 35,143 | 4.4 | 38,615 | 4.9 | 91.01 |
| 2008 | 35,956 | 2.3 | 39,751 | 2.9 | 90.45 |

Source: U.S. Bureau of Economic Analysis, Department of Administrative Services.

Population

In 2008, Oregon ranked as the 27th most populous state with a population of 3.79 million. Oregon's population growth rate since the 2000 census is the 13th fastest in the nation. In just over eight years, between April 1, 2000 and July 1, 2008, U.S. population grew by 8 percent, whereas Oregon grew by 10.8 percent. Approximately one-third of the population change for Oregon was attributed to natural increase and two-third was due to migration.

TABLE 10
POPULATION CHANGE
OREGON AND UNITED STATES, 1980 – 2010

| <u>Year</u> ¹ | <u>Oregon</u> | <u>Percent Change (%)</u> | <u>United States</u> | <u>Percent Change (%)</u> |
|--------------------------|---------------|---------------------------|----------------------|---------------------------|
| 1980 | 2,633,105 | -- | 226,545,805 | -- |
| 1990 | 2,842,321 | 7.9 | 248,709,873 | 9.8 |
| 2000 | 3,421,399 | 20.4 | 281,421,906 | 13.2 |
| 2010 (projected) | 3,874,400 | 13.2 | 310,232,863 | 10.2 |

Sources: Oregon Department of Administrative Service, Office of Economic Analysis, Economic and Revenue Forecast March 2009; Census 2000 Special Reports, issued November 2002 U.S. Census Bureau.

(1) 1980, 1990 and 2000 figures are as of April 1 (with corrections) and the 2010 figures are as of July 1.

TABLE 11
OREGON POPULATION AGE TRENDS, 1990 – 2010

| <u>Age</u> | <u>1990</u> | | <u>2000</u> | | <u>2010 (projected)</u> | |
|------------|-------------------|------------------------------|-------------------|------------------------------|-------------------------|------------------------------|
| | <u>Population</u> | <u>% Change</u> ¹ | <u>Population</u> | <u>% Change</u> ¹ | <u>Population</u> | <u>% Change</u> ¹ |
| 0-4 | 209,638 | 5.1 | 223,198 | 6.5 | 242,342 | 8.6 |
| 5-17 | 532,727 | 1.6 | 624,354 | 17.2 | 635,318 | 1.8 |
| 18-24 | 268,134 | -18.6 | 330,358 | 23.2 | 362,574 | 9.8 |
| 25-44 | 926,326 | 17.2 | 997,012 | 7.6 | 1,054,284 | 5.7 |
| 45-64 | 531,181 | 8.1 | 817,598 | 53.9 | 1,055,857 | 29.1 |
| 65+ up | <u>392,369</u> | <u>28.3</u> | <u>439,010</u> | <u>11.9</u> | <u>524,025</u> | 19.4 |
| Total | 2,860,375 | | 3,431,530 | | 3,874,400 | |

Source: U.S. Bureau of Economic Analysis, Department of Administrative Services; State of Oregon Office of Economic Analysis, Economic & Revenue forecast March 2009.

(1) Change from prior decade.

Forecast Summary of Economic Indicators

The following table presents a Summary of the State's Office of Economic Analysis' ("OEA") economic forecast from the OEA's most recent Oregon Economic and Revenue Forecast as of March 2009. The State bases its revenue forecast on this underlying economic information. Economic and Revenue Forecasts are based on a variety of assumptions and methodologies and no assurances can be given that projections in the forecasts will be achieved. For a more detailed description of the revenue forecasting process, see "State Financial Operations – Revenue Forecasting" below.

TABLE 12
OREGON FORECAST SUMMARY
(CALENDAR YEAR)

| | Actual | | Forecast | | | | | | | |
|---|---------|---------|----------|---------|---------|---------|---------|---------|---------|---------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Nominal Personal Income (\$Billions) | 123.7 | 131.3 | 136.5 | 137.7 | 141.8 | 149.1 | 157.3 | 166.0 | 174.9 | 184.0 |
| % change | 8.1 | 6.1 | 4.0 | 0.9 | 3.0 | 5.2 | 5.5 | 5.5 | 5.4 | 5.2 |
| Real Personal Income (base year=2000) (\$Billions) | 107.9 | 111.6 | 112.3 | 114.5 | 116.3 | 120.2 | 124.6 | 128.7 | 132.8 | 136.8 |
| % change | 5.2 | 3.4 | 0.7 | 1.9 | 1.6 | 3.3 | 3.7 | 3.3 | 3.2 | 3.0 |
| Nominal Wages and Salaries (\$Billions) | 67.9 | 71.6 | 73.5 | 71.8 | 73.4 | 77.0 | 81.4 | 86.2 | 90.8 | 95.4 |
| % change | 6.8 | 5.5 | 2.7 | (2.3) | 2.3 | 4.9 | 5.7 | 5.9 | 5.4 | 5.0 |
| Per Capita Income (\$1,000) | 33.5 | 35.0 | 36.0 | 35.9 | 36.5 | 37.9 | 39.5 | 41.2 | 42.8 | 44.5 |
| % change | 6.5 | 4.6 | 2.7 | (0.2) | 1.7 | 3.9 | 4.2 | 4.2 | 4.1 | 3.9 |
| Average Wage rate (\$1,000) | 39.4 | 40.9 | 42.1 | 43.1 | 44.1 | 45.3 | 46.6 | 48.3 | 50.0 | 51.8 |
| % change | 3.9 | 3.8 | 3.0 | 2.4 | 2.2 | 2.7 | 3.0 | 3.5 | 3.6 | 3.6 |
| Population (Millions) | 3.7 | 3.7 | 3.8 | 3.8 | 3.9 | 3.9 | 4.0 | 4.0 | 4.1 | 4.1 |
| % change | 1.6 | 1.5 | 1.2 | 1.1 | 1.1 | 1.1 | 1.2 | 1.3 | 1.2 | 1.2 |
| Housing Starts (Thousands of Units) | 27.6 | 21.8 | 12.7 | 6.7 | 10.8 | 14.3 | 16.0 | 17.0 | 17.6 | 18.2 |
| % change | (10.7) | (20.9) | (41.7) | (47.5) | 61 | 33.1 | 11.7 | 6.0 | 3.8 | 3.5 |
| Total Nonfarm (Thousands of Jobs) | 1,703.5 | 1,731.4 | 1,721.2 | 1,647.2 | 1,648.3 | 1,683.6 | 1,727.0 | 1,766.2 | 1,796.6 | 1,821.6 |
| % change | 3.0 | 1.6 | (0.6) | (4.3) | 0.1 | 2.1 | 2.6 | 2.3 | 1.7 | 1.4 |
| Private Nonfarm | 1,417.4 | 1,441.7 | 1,422.3 | 1,348.8 | 1,349.2 | 1,384.9 | 1,427.2 | 1,463.6 | 1,491.6 | 1,514.5 |
| % change | 3.5 | 1.7 | (1.3) | (5.2) | 0.0 | 2.6 | 3.1 | 2.5 | 1.9 | 1.5 |
| Construction | 100.9 | 104.2 | 94.7 | 79.9 | 74.2 | 75.8 | 79.2 | 82.9 | 85.7 | 87.5 |
| % change | 11.1 | 3.3 | (9.2) | (15.6) | (7.1) | 2.2 | 4.4 | 4.8 | 3.4 | 2.0 |
| Manufacturing | 207.3 | 204.1 | 195.1 | 173.8 | 167.0 | 169.7 | 173.9 | 176.8 | 179.2 | 181.3 |
| % change | 1.7 | (1.6) | (4.4) | (10.9) | (3.9) | 1.6 | 2.4 | 1.7 | 1.3 | 1.2 |
| Durable Manufacturing | 154.7 | 150.9 | 142.4 | 123.6 | 118.1 | 120.2 | 123.2 | 125.1 | 126.3 | 127.4 |
| % change | 1.7 | (2.5) | (5.6) | (13.2) | (4.4) | 1.7 | 2.6 | 1.5 | 1.0 | 0.9 |
| Wood Product Manufacturing | 32.4 | 30.0 | 27.0 | 22.3 | 21.2 | 22.5 | 23.8 | 24.5 | 24.9 | 25.3 |
| % change | (0.8) | (7.5) | (9.8) | (17.3) | (5.3) | 6.3 | 6.0 | 2.6 | 2.0 | 1.4 |
| High-Tech Manufacturing | 41.9 | 40.7 | 38.9 | 34.6 | 35.2 | 36.9 | 38.2 | 38.2 | 37.4 | 36.8 |
| % change | 1.5 | (2.9) | (4.5) | (10.9) | 1.7 | 4.7 | 3.5 | 0.1 | (2.2) | (1.5) |
| Transportation Equipment | 18.3 | 17.4 | 14.9 | 11.4 | 10.7 | 11.2 | 11.7 | 12.3 | 12.9 | 13.3 |
| % change | 2.1 | (5.1) | (14.7) | (23.6) | (5.6) | 4.5 | 4.2 | 5.6 | 4.8 | 3.1 |
| Nondurable Manufacturing | 52.6 | 53.2 | 52.7 | 50.2 | 48.9 | 49.6 | 50.6 | 51.8 | 52.9 | 53.9 |
| % change | 1.6 | 1.1 | (0.8) | (4.8) | (2.6) | 1.4 | 2.2 | 2.2 | 2.2 | 2.0 |
| Private Nonmanufacturing | 1,210.1 | 1,237.6 | 1,227.1 | 1,175.0 | 1,182.2 | 1,215.2 | 1,253.3 | 1,286.7 | 1,312.4 | 1,333.2 |
| % change | 3.8 | 2.3 | (0.8) | (4.2) | 0.6 | 2.8 | 3.1 | 2.7 | 2.0 | 1.6 |
| Retail Trade | 197.3 | 200.7 | 196.7 | 187.9 | 193.1 | 195.9 | 200.2 | 205.3 | 208.8 | 211.6 |
| % change | 2.0 | 1.7 | (2.0) | (4.4) | 2.8 | 1.4 | 2.2 | 2.6 | 1.7 | 1.3 |
| Wholesale Trade | 79.9 | 80.8 | 80.0 | 76.9 | 76.6 | 78.0 | 80.6 | 82.6 | 84.3 | 85.8 |
| % change | 2.6 | 1.2 | (1.1) | (3.8) | (0.4) | 1.8 | 3.4 | 2.5 | 2.0 | 1.8 |
| Information | 34.9 | 36.0 | 36.1 | 33.9 | 33.2 | 34.8 | 35.2 | 35.5 | 35.8 | 36.1 |
| % change | 3.7 | 3.3 | 0.4 | (6.2) | (2.1) | 4.8 | 1.1 | 1.0 | 0.9 | 0.8 |
| Professional and Business Services | 194.4 | 197.3 | 195.7 | 179.7 | 181.1 | 195.6 | 207.8 | 217.4 | 224.9 | 230.6 |
| % change | 4.8 | 1.5 | (0.8) | (8.2) | 0.8 | 8.0 | 6.2 | 4.6 | 3.5 | 2.5 |
| Health Services | 176.8 | 182.8 | 189.6 | 195.5 | 202.3 | 208.4 | 212.7 | 216.8 | 221.1 | 225.2 |
| % change | 3.0 | 3.4 | 3.7 | 3.1 | 3.5 | 3.0 | 2.1 | 1.9 | 2.0 | 1.9 |
| Leisure and Hospitality | 164.9 | 171.9 | 173.7 | 168.6 | 168.4 | 169.0 | 173.8 | 177.9 | 181.3 | 184.3 |
| % change | 3.7 | 4.2 | 1.1 | (2.9) | (0.1) | 0.4 | 2.8 | 2.3 | 1.9 | 1.6 |
| Government | 286.1 | 289.8 | 298.9 | 298.4 | 299.0 | 298.6 | 299.8 | 302.7 | 305.0 | 307.1 |
| % change | 0.4 | 1.3 | 3.2 | (0.2) | 0.2 | (0.1) | 0.4 | 1.0 | 0.8 | 0.7 |

Source: Office of Economic Analysis, Department of Administrative Services, Oregon Economic and Revenue Forecast March 2009.

STATE FINANCIAL OPERATIONS

Budgetary Process

The Oregon constitution requires the State's budget to balance at the end of each biennium. Article IX, Section 6 of the Oregon Constitution states that "whenever the expenses, of any fiscal year, shall exceed the income, the Legislative Assembly shall provide for levying a tax, for the ensuing fiscal year, sufficient, with other sources of income, to pay the deficiency, as well as the estimated expense [sic] of the ensuing fiscal year." Because of this provision, Oregon may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

During each legislative session, the Legislative Assembly adopts a budget covering all of the State's operations for the next biennium. A biennium begins July 1 and ends June 30 of odd-numbered years. The budget is adopted through the enactment of separate budget bills for each State agency and for the Legislative and Judicial Branches (the "Budget Bills"). There are four different categories of funds included in the State's budget: (i) General Funds, (ii) Lottery Funds, (iii) Other Funds (dedicated funds), and (iv) Federal Funds.

The budgeting process begins with the Governor's submission of a recommended budget for State agencies in the December preceding the start of a new legislative session. All legislators receive copies of the recommended budget. Concurrently, each agency prepares and files Budget Bills during December so that when the Legislative Assembly convenes in January, the Joint Ways and Means Committee can begin consideration of each bill. By statute, the budget may not permit certain governmental purpose expenditures to exceed eight percent of the State's personal income. This limitation may be exceeded only if the Governor declares an emergency and if three-fifths of each house of the Legislative Assembly votes to exceed the limit.

The Legislative Assembly may provide spending authority to a State agency through a continuous appropriation of a fund dedicated for a certain purpose. In that case, spending is limited only by the amount of revenues received in or held by the fund. The Legislative Assembly may also limit the amount of money spent in a biennium by placing a biennial expenditure limitation on a continuously appropriated and dedicated fund. In addition, the Legislative Assembly enacts one-time appropriations of moneys for the biennium to specific agencies or programs from moneys expected to be received or held by the State's General Fund and from lottery revenues. After the Budget Bills are passed, the Governor may veto an entire bill, single items in appropriation bills or the emergency clause in a bill. A two-thirds vote of the Legislative Assembly may override the Governor's veto.

If budget adjustments are required during a biennium after the regular legislative session has ended, the Legislative Assembly may meet again in a specially called session, or the Legislative Emergency Board may adjust agency budgets. If an emergency exists, the Board may allocate additional moneys to any State agency out of funds appropriated to the Board by the Legislative Assembly during its regular session. The Board may also provide moneys for an activity required by law for which an appropriation was not made, increase expenditure authority from dedicated or continuously appropriated funds, and approve funding for a new activity coming into existence at a time that would preclude submission of a budget to the Legislative Assembly.

Revenue Forecasting

Oregon law requires DAS to prepare an estimate for each calendar quarter of the total amount of revenue available for State purposes for the current fiscal year, as well as the amount of revenue received

quarterly, cumulated through the biennium. DAS must report its estimates to the Legislative Assembly, when it is in session, and to certain interim committees of the Legislative Assembly, when it is not in session. The reports are issued the first day of each March, June, September and December. These reports are commonly known as the quarterly “revenue forecast.” In odd-numbered years when the Legislative Assembly is in session, the June forecast is released May 15 and is commonly referred to as the “close of session” or “COS” forecast.

Oregon law also requires DAS to set forth the methodology and assumptions used to develop each quarterly revenue forecast. Currently, the State uses an econometric model to forecast the Oregon economy and personal and corporate income taxes. The system receives new data each quarter, with revisions to the model as necessary. The econometric model has two major parts: (1) a State economic model that estimates employment, wages and personal income; and (2) a revenue forecasting system based on the economic model, for use in estimating personal and corporate income taxes. Since more than 80% of the State’s revenue is derived from these two taxes, most of the State’s revenues are included in the modeling process.

The development of a revenue forecast involves three steps. First, a forecast of economic conditions in Oregon is made. The model of the Oregon economy projects levels of employment by industry, wages and salaries, non-wage components of personal income, and several other important economic indicators. This projection of employment and income becomes a basis of the revenue forecast for personal income tax receipts. In developing its projections for the Oregon economy the State uses the national baseline forecasts of Global Insight, Inc.

The second step translates projected income and population into projected tax receipts other than from corporate and excise taxes. The personal income and population forecasts are used to produce estimates of gross income by type, including wage and salary, capital gains and small business. The historical relationship between tax liabilities and income growth is used to project future tax liabilities. Finally, historical patterns are used to translate tax liabilities to collections, broken down into withholding and estimated payments, final payments and refunds.

In the third step, another model projects corporate income and excise tax collections. This model relates historical collections and liabilities to national corporate net income. The State uses Global Insight, Inc.’s forecast of national corporate profits to forecast corporate tax liability in Oregon.

Accounting Practices

Oregon law designates DAS as the agency responsible for the overall administration and coordination of the State’s internal accounting and other fiscal controls and procedures. DAS has developed the Oregon Accounting Manual that sets forth internal policies and uniform procedures for agencies to follow in their fiscal management, accounting and reporting.

DAS is responsible for the State’s financial reporting, although the Oregon Secretary of State is the State’s auditor of public funds and reporting. DAS must prepare a financial report for the State of Oregon within 180 days after the close of each fiscal year. The reporting entity of the State of Oregon includes all State agencies, universities, commissions and boards for which elected State officials have oversight responsibility. Oregon’s financial statements are prepared in conformity with generally accepted accounting principles (“GAAP”) applicable to state governments.

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. On the modified accrual basis of accounting, taxpayer assessed taxes are recognized when the underlying exchange has occurred and the

resources are available. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. An exception to this general rule of expenditure recognition is that principal and interest on general long-term debt is recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses (other than debt service) are recognized when they are incurred.

With some exceptions, goods and services must be received by June 30 to be charged against the current biennium. If the goods or services are not received prior to June 30, the expenditure will be charged against the new biennium.

Controls

Audits

The Secretary of State, as State Auditor, audits or reviews the accounts and financial affairs of each State agency as deemed appropriate under ORS 297.210. An audit is also required when there is a change in the executive head of an institution or department. A copy of the report on each audit is submitted to the Governor, the Legislative Fiscal Officer and DAS. The Secretary of State's Audit Division reviews the funds of the State's larger agencies in connection with the development of the State's annual financial report and provides annual audits, as requested, for the State's revenue bond funded programs.

Disbursements and Allotments

Oregon law requires that State agency spending be monitored and that moneys be disbursed throughout the biennium through an allotment process that is administered by DAS. Under this process, DAS allots to each agency the amount of appropriated moneys that may be spent during each of the eight quarters in a biennium. The amount of an allotment is based on estimates submitted by agencies of their statutory duties and projected expenditures to fulfill the purposes for which moneys were appropriated to them. DAS may amend allotments previously made by it at the request of an agency or after notice by DAS to an agency. In addition, if DAS declares at any time during the biennium that there is a projected budget deficit due to insufficient revenues, then DAS, with the Governor's approval, may reduce previously made allotments to a level necessary to prevent the deficit.

Fiscal Checks and Balances

Oregon law provides for a system of checks and balances with respect to the deposit, accounting and expenditure of State moneys. DAS supervises State agency accounting and prescribes rules and regulations for preparation of agency budgets. The Secretary of State, the constitutionally designated auditor of public accounts, may disapprove claims for payment from any moneys in the State Treasury. State agencies are required to turn the moneys collected by them over to the State Treasurer for deposit into various funds that comprise the State Treasury. The State Treasurer is responsible for control of State banking relationships, cash management and the investment of State funds. Some State moneys are deposited with outside trustees who administer the cash and investments.

On a day-to-day basis, DAS, along with the State Treasurer and the Secretary of State, maintains the system of checks and balances. For example, DAS reconciles its accounts monthly with the related account balances maintained by the State Treasurer, which facilitates the adjustment of any imbalances or other errors. DAS also follows up on major deficiencies listed in the audit reports prepared by the Audits

Division of the Secretary of State. Agencies must respond to DAS stating in detail how they will correct the deficiencies.

Loss Management

The State Services Division of DAS is responsible for managing the State's risk of loss due to various types of loss or liability. The primary kinds of loss that the division works to prevent or pay include employee injuries; property loss to state buildings, contents and vehicles; employee theft or dishonesty and tort liability claims arising from an alleged failure of state agencies or employees to perform their duties. The State insures for potential losses through a combination of self-insurance and purchased commercial insurance policies. The Fund generally pays up to a set amount for various types of losses through its self-insurance program, with excess amounts covered by purchased commercial insurance policies.

The State Services Division pays for both its self-insurance losses and commercial insurance premiums from the State Insurance Fund. The division determines for each biennium the appropriate amounts required for each Fund for each separate category of potential loss and the appropriate level of commercial insurance. Agencies pay assessments to the Fund for each category of loss. The State Insurance Fund is comprised of these assessments and interest earnings of the Fund. As of June 30, 2008, the State Insurance Fund's estimated liabilities, as determined by the State Services Division, were approximately \$147 million, while assets in the State Insurance Fund to cover such liabilities were valued at approximately \$114 million. For additional information, see note 16 of the Basic Financial Statements for the State for the fiscal year ended June 30, 2007 and "LITIGATION - Challenge to Tort Claims Act" in this Official Statement.

REVENUES

General Fund Revenues

A description of the largest sources of the State's General Fund revenues is provided below. For additional information on the General Fund revenue amounts collected each biennium see Table 13 under "Oregon Financial Information."

Taxes

Personal Income Taxes. Oregon taxes the personal income of individuals, estates, and trusts. The amount of taxable income is calculated using the Internal Revenue Code of 1986, as amended. Oregon employers withhold income tax from their employees' wages. The employees then file Oregon tax returns for refunds or pay additional tax by April 15 of each year. Self-employed persons and others not subject to withholding must pay quarterly estimated tax payments.

For the 2008 tax year, the Oregon tax rates for single filers were 5% for income under \$2,900; over \$2,900 but under \$7,300, \$145 plus 7% of the excess over \$2,900; over \$7,300, \$453 plus 9% of the excess of \$7,300. The amount of applicable income is doubled for joint returns. The income amount to which a certain rate applies is indexed to changes in the Consumer Price Index. Standard deductions were \$3,735 (married, filing jointly), \$1,865 (single/separate), and \$3,005 (head of household). The maximum amount of federal tax liability subtraction from Oregon taxable income for the 2008 tax year was \$5,600 (\$2,800 for married, filing separate). Beginning in 2008 and thereafter, the change in the federal tax subtraction amount is indexed to inflation.

Corporate Excise and Income Taxes. Corporations are subject to either a corporate excise tax or the corporate income tax under Oregon law.

The corporate excise tax is imposed for the privilege of doing business in Oregon. A corporation is doing business in Oregon when it engages in any profit-seeking activity in Oregon. The amount of excise tax is 6.6 percent of a corporation's taxable income, with a minimum tax of \$10 imposed, even if the corporation has no taxable income. The amount of taxable income is based generally on the Internal Revenue Code of 1986, as amended. Any corporation doing business in Oregon pays the excise tax.

The corporate income tax is imposed on any corporation that is not doing business in Oregon, but that has income from an Oregon source. Corporations that operate in more than one state must determine the share of their income attributable to Oregon activities using Oregon sales relative to sales in all states. The amount of corporate income tax is 6.6 percent of a corporation's taxable income derived from sources within Oregon.

Insurance Taxes. All authorized insurers in Oregon are subject to the corporate excise tax; however, foreign insurers (those domiciled in other states) and alien insurers (those domiciled in other countries) are also subject to a retaliatory tax. The Oregon Department of Revenue collects the excise tax. The Insurance Division of the Department of Consumer and Business Services collects the retaliatory tax.

Inheritance Taxes. The State ties what it collects as inheritance tax to the federal estate tax law under the Taxpayer Relief Act of 1997, not to the 2001 federal law changes. Because Oregon calculates its tax differently than the federal estate tax under current federal law, the Oregon inheritance tax amount may be higher than the federal tax amount.

Cigarette and Other Tobacco Taxes. The State imposes an excise tax on the distribution of all tobacco products in Oregon. Taxes are levied on each package of cigarettes and as a percent of the wholesale price of other tobacco products, but limited to \$0.50 per cigar. The tax rate on cigarettes is \$0.059 per cigarette (\$1.18 for a pack). The tax rate on the other tobacco products is 65 percent of the wholesale price. The cigarette and other tobacco products taxes are distributed primarily to the General Fund, with the balance distributed equally among cities, counties and the Department of Transportation.

Other Taxes. A portion of the moneys collected from the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax are allocated to the General Fund.

Fines and Fees

The fines and fees section of General Fund revenues includes State Court Fees, Secretary of State Corporation Fees, Criminal Fines and Assessments, and Securities Fees. These are fees imposed by agencies or the State courts for the filing of certain court-related or corporate documents and certain fines for violations of the law.

Liquor Sales Apportionment

The State imposes taxes on beer and wine manufactured or distributed in Oregon. The current tax rates are 8.4 cents per gallon of beer (\$2.60 per 31-gallon barrel), 67 cents per gallon of wine with 14 percent or less alcohol, and 77 cents per gallon of wine with 14 percent – 21 percent alcohol. The Oregon Liquor Control Commission (OLCC) exclusively imports and distributes beverages with 21 percent or more alcohol. The OLCC sets retail prices, on average, at 101 percent above the sum of costs, shipping, and federal taxes. The net revenue from these operations goes into an OLCC account, which distributes

approximately 56 percent of the revenues to the General Fund.

Other Sources

Other major sources of General Fund revenue include charges for central services performed by DAS, interest earnings, and miscellaneous revenues.

General Fund Revenue Reduction Due to Income Tax Return (2% Surplus Kicker)

Under the Oregon Constitution, if the revenues actually received in a biennium exceed the amounts estimated to be received from either of two General Fund revenue categories, personal or corporate taxes, by more than two percent, a refund is paid to individual taxpayers and a tax credit is issued to corporate taxpayers, as applicable. This return of excess revenues is popularly known as the “kicker.” For individuals, the refund is based on the previous calendar year’s tax liability (for example, 2006 liability for the 2005-07 kicker). For corporations, the credit is based on the tax liability for the calendar year containing the end of the biennium (for example, 2007 liability for the 2005-07 kicker). The State may retain the corporate or individual kicker moneys only if two-thirds of each house of the Legislative Assembly votes to keep the kicker. See “Reserve Funds – *Rainy Day Fund*” below.

Lottery Funds

Revenues from the operation of the Oregon State Lottery comprise a significant source of money in the State’s budget. After the payment of prizes and operating the State Lottery, revenues are constitutionally dedicated to education, economic development, and natural resources program areas. According to the Oregon Constitution, approximately 84 percent of the total annual revenues from the sale of lottery tickets or shares shall be returned to the public in the form of prizes and net revenues benefiting the public purpose. After paying player prizes and operating expenses, the Lottery transfers the remaining revenues to the Administrative Services Economic Development Fund. The constitution and the Legislative Assembly direct how moneys from this fund are distributed. Presently, the Education Stability Fund and the Parks and Natural Resources Fund receive about 33 percent of total transfers. Debt service payments, State school funding, and economic development efforts are the primary uses for the remainder. For a discussion on lottery revenue bonds, see “Debt Authority and Bond Issuance - Direct Revenue Bonds, *Lottery Revenue Bonds*” below.

Reserve Funds

Reserve Funds. The State has two budgetary reserve funds, the Education Stability Fund and the Oregon Rainy Day Fund that may be drawn on in the event of General Fund revenue shortfalls or economic downturns within a biennium subject to certain restrictions described below.

Education Stability Fund (ESF). Under the Oregon Constitution, 18% of the net proceeds from the State Lottery must be deposited in the ESF. The ESF retains earnings or spends them on public education. The Legislative Assembly also may appropriate other moneys or revenues to the ESF. The amount in the ESF may not exceed 5% of the amount that was accrued as revenues in the State’s General Fund during the prior biennium. If 3/5ths of the Legislative Assembly approves, the Legislative Assembly can appropriate all or a portion of the money in the ESF for public education expenditures subject to the Governor declaring an emergency or the Legislative Assembly finding that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast.

Rainy Day Fund (RDF). The 2007 Legislative Assembly authorized the establishment of the Oregon Rainy Day Fund, codified in ORS 293.144 to 293.148. Rather than returning excess corporate income tax receipts for the 2005-07 biennium (known as the “corporate kicker”) to corporate taxpayers, the Legislative Assembly approved depositing most of this corporate kicker into the newly established Oregon Rainy Day Fund. The corporate kicker is the difference between the actual amount of revenues collected from corporate income and excise taxes and the estimate made for that biennium in the close of session forecast. The initial deposit of \$319.3 million was made to the RDF in September 2007. The RDF retains earnings in the fund. ORS 293.146 also provides for future deposits to the RDF in an amount equal to up to one percent of the State’s General Fund appropriations for a biennium. The deposit is payable from the State’s General Fund ending balance at the end of a particular biennium. The actual amount of the deposit up to the one percent requirement will depend on the size of the State’s General Fund ending balance. Additional transfers to the RDF cannot be made if the balance in the RDF exceeds 7.5% of the amount of General Fund revenues collected in the prior biennium. If 3/5^{ths} of the Legislative Assembly approves, the Legislative Assembly may appropriate money from the RDF if it finds that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast. The Legislative Assembly may not appropriate more than two-thirds of the amount in the RDF in any biennium.

The chart below presents the actual and estimated amounts in the State’s reserve funds for the end of the 2005-07 and 2007-09 biennia. The Oregon Constitution requires 18% of net lottery revenues be deposited in the ESF each year. Under state law, the Oregon Growth Account receives 10% of that amount. The Oregon Growth Account is a venture capital fund geared towards investments in promising new Oregon companies. As of June 30, 2008, the State had \$622.4 million on deposit in the ESF and the RDF.

EDUCATION STABILITY AND RAINY DAY FUNDS (DOLLARS IN MILLIONS)

| <u>Biennium</u> | <u>Education Stability Fund</u> ¹ | <u>Rainy Day Fund</u> | <u>Total</u> |
|------------------------|---|------------------------------|---------------------|
| 2005-07 | \$179 | NA | \$179 |
| 2007-09 | \$393 | \$341 ² | \$734 |

Source: Office of Economic Analysis

- (1) Reflects net available amount in the ESF, exclusive of funds held in the Oregon Growth Account that may be illiquid.
- (2) 2007-09 RDF amount reflects the initial transfer of the 2005-07 corporate kicker of \$319.3 million and estimated interest earnings over the biennium.

Other Funds Revenues

A description of the largest sources of the State’s Other Funds revenue follows below. For additional information on the Other Funds revenue amounts collected each biennium see Table 16, “Oregon Financial Information.”

Selective Sales and Use Taxes

Cigarette and Other Tobacco Taxes. As described above, a large part of the cigarette and other tobacco products taxes is distributed to the General Fund. Part of those taxes, however, is also distributed as Other Funds revenue. The Oregon Health Plan is the primary recipient of the cigarette tax distributed

as Other Funds, with small amounts distributed to tobacco cessation programs and among cities, counties, and elderly and disabled transportation programs. The remaining tobacco products tax distributed as Other Funds goes primarily to the Oregon Health Plan with a small amount to tobacco cessation programs.

Motor Fuels Tax and Weight-Mile Tax. Oregon imposes a tax at the rate of 24 cents per gallon on the sale of gasoline and other fuels used to propel motor vehicles on the State's highways. The Oregon Department of Transportation (ODOT) also assesses a weight-mile tax and road use fees on commercial vehicles that operate on public roads within Oregon. The weight-mile tax is based on the declared combination of vehicle weight and vehicle classification group. Revenues derived from the fuels tax, weight-mile tax and road use assessment fees are paid into the State Highway Fund.

Gross Receipts Business Taxes

Public Utilities. Regulated utilities operating within the State must pay in taxes up to 0.25 percent of gross operating revenues. These taxes are collected to cover the cost of utility regulation performed by the Oregon Public Utility Commission.

Employer-Employee Taxes

Employment Taxes. Employers and employees in Oregon must pay unemployment taxes. The rate of unemployment tax depends upon the balance in the Unemployment Compensation Trust Fund as of August 31 of each year, the taxable payroll, and the amount of unemployment benefits paid.

Workers' Compensation Insurance. Oregon employers and employees also pay a workers' compensation assessment. The Director of the Department of Consumer and Business Services determines the amount of workers' compensation assessments.

Severance Taxes

Portions of the Eastern Oregon, Western Oregon and Other Severance taxes are paid to funds outside of the General Fund for various forest-related and other programs.

Licenses and Fees.

Owners and operators of motor vehicles pay fees to ODOT for the licensing, registration, and titling of their vehicles. These moneys are dedicated to the State Highway Fund, the Student Driver Training Fund, and the Motor Vehicle Accident Fund. Another source of revenue comes from the sale of hunting and fishing licenses and tags and occupational licenses.

Other Revenues

Charges for Services. Major portions of these Other Funds revenues are collected by the Oregon University System and consist of auxiliary enterprise and service income. Sales of State Forest Lands and Common School Lands also provide income. This category also includes revenue from veterans' home loan repayments and retirement system contributions, as well as various other smaller sources.

Fines, Rents and Royalties, Bond Sales. The State collects income from State-owned properties that are leased or rented. It also collects royalties or similar returns through the Oregon University System and some loan and grant programs. Proceeds from the sale of bonds issued by the State are deposited into various program funds and accounts for disbursement to construction projects, or loan and

grant programs operated by various State agencies.

Sales, Donations and Loan Repayments. The State from time to time sells State-owned properties, receives donations from various parties and receives repayments on loans made to governmental and private entities under various programs.

Federal Funds

Federal Funds are moneys received from the federal government. The Legislative Assembly may authorize receipt of Federal Funds for specific purposes. These funds must be appropriated by the Legislative Assembly and used in accordance with any restrictions placed on the funds by the federal government.

OREGON FINANCIAL INFORMATION

Table 13 presents historical and forecast State General Fund Revenues for the 2001-03 through 2007-09 biennia.

TABLE 13
STATE OF OREGON
GENERAL FUND REVENUE STATEMENT
(DOLLARS IN THOUSANDS) ¹

| | 2001-03 | 2003-05 | 2005-07 | Mar '09 |
|--|--------------------------------|--------------------------------|----------------------------------|---|
| Taxes | Actual² (\$) | Actual³ (\$) | Actuals^{3a} (\$) | Economic & Revenue Forecast 2007-09 (\$) |
| Personal Income Taxes | 7,699,541 | 8,991,613 | 11,040,347 | 11,456,364 ⁴ |
| Corporate Excise and Income Taxes | 420,072 | 640,782 | 844,082 | 748,823 |
| Insurance Taxes | 112,783 | 106,709 | 114,718 | 97,238 |
| Estate Taxes | 116,633 | 130,461 | 168,933 | 201,847 |
| Cigarette Taxes | 95,917 | 82,671 | 88,789 | 82,106 |
| Other Tobacco Products Taxes | 21,927 | 21,924 | 32,553 | 34,118 |
| Other Taxes | 3,377 | 2,789 | 2,504 | 1,407 |
| Fines and Fees | | | | |
| State Court Fees | 31,850 | 32,877 | 48,036 | 57,348 |
| Secretary of State Corp. Fees | 0 | 13,963 | 20,402 | 23,719 |
| Criminal Fines and Assessments | 74,232 | 74,753 | 88,741 | 73,970 |
| Securities Fees | 0 | 13,633 | 18,226 | 19,152 |
| Central Service Charge | 6,199 | 6,282 | 6,687 | 8,760 |
| Liquor Apportionment | 114,869 | 123,304 | 146,110 | 182,787 |
| Interest Earnings | 21,434 | 30,422 | 101,356 | 94,452 |
| Miscellaneous Revenues ⁵ | 647,201 | 18,806 | 15,698 | 20,524 |
| One-time Transfers | <u>0</u> | <u>147,245</u> | <u>4,824</u> | <u>0</u> |
| Gross General Fund Revenues | 9,366,035 | 10,438,234 | 12,742,006 | 13,102,615 |
| <i>Total Kicker Refunds/Credits</i> | 0 | 0 | 0 | (1,084,201) |
| Net General Fund Revenues | 9,366,035 | 10,438,234 | 12,742,006 | 12,018,414 |
| Plus Beginning Balance | 362,975 | 113,483 | 308,523 | 1,436,710 |
| Less Anticipated Administrative Actions ⁶ | <u>16,384</u> | <u>17,790</u> | <u>4,937</u> | (42,140) |
| Less Legislative Adopted Actions | <u>0</u> | <u>0</u> | <u>0</u> | (319,288) ⁷ |
| Available Resources | <u>9,729,010</u> | <u>10,551,717</u> | <u>13,050,529</u> | <u>13,093,696</u> |
| Appropriations | 9,738,116 | 10,295,491 | 11,641,200 | 13,948,967 |
| Adjusted Appropriations | 9,754,500 | 10,313,281 | 11,646,137 | 13,948,967 |
| Less Reversion | 27,173 | 70,086 | 32,319 | 0 |
| Less Unscheduled Expenditures | 111,800 ⁸ | 0 | 0 | 0 |
| Projected Expenditures | <u>9,615,527</u> | <u>10,243,195</u> | <u>11,613,818</u> | <u>13,948,967</u> |
| Ending Balance | <u>113,483</u> | <u>308,523</u> | <u>1,436,710</u> | <u>(855,272)</u> |

Source: State of Oregon, Budget and Management, and Office of Economic Analysis.

- (1) Totals may not agree with sum of components due to rounding.
- (2) Oregon Economic and Revenue Forecast dated September 2003, adjusted for administrative actions and reversions.
- (3) Oregon Economic and Revenue Forecast dated September 2005, adjusted for reversions.
- (3a) Oregon Economic and Revenue Forecast dated September 2007, adjusted for reversions.
- (4) Not reduced by \$1,084,201 Kicker.
- (5) For the 2001-03 biennium, includes \$450 million of appropriation bond proceeds, transferred to the General Fund in April 2003. See "Debt Authority and Bond Issuance – Appropriation Credits, Oregon Appropriation Bonds" below.
- (6) Administrative Actions equal expenses associated with cash flow management, exclusive of internal borrowing
- (7) Equals 2005-07 portion of corporate surplus designated for the Rainy Day Fund..
- (8) Governor unscheduled a portion of the 2001-03 expenditures equal to the General Fund revenue deficit.

Table 14 compares budgeted and actual General Fund Revenues for the 2001-03 through the 2007-09 biennia.

TABLE 14
STATE OF OREGON
ACTUAL GENERAL FUND REVENUES COMPARED WITH
LEGISLATIVELY ADOPTED BUDGET ESTIMATES
(DOLLARS IN BILLIONS)

| <u>Biennium</u> | | <u>Budget at Close of Session (\$)</u> | <u>Actual (\$)</u> | <u>Difference (\$)</u> | <u>Percent Difference (%)</u> |
|----------------------|----------------------------------|--|---------------------|------------------------|-----------------------------------|
| 2001-03 ¹ | Personal Income Tax | 9.445 | 7.700 | (1.745) | (18.5) |
| | Corporate Income Tax | 0.860 | 0.420 | (0.440) | (51.2) |
| | Other Revenues | 0.750 | 1.246 | 0.496 | 66.1 |
| | Total | 11.055 | 9.366 | (1.689) | (15.3) |
| 2003-05 ¹ | Personal Income Tax | 9.395 | 8.992 | (0.403) | (4.3) |
| | Corporate Income Tax | 0.540 | 0.641 | 0.101 | 18.7 |
| | Other Revenues | 0.803 | 0.806 | 0.003 | 0.4 |
| | Total | 10.738 | 10.439 | (0.299) | (2.8) |
| 2005-07 ² | Personal Income Tax | 10.124 | 11.040 | 0.916 | 9.1 |
| | Corporate Income Tax | 0.500 | 0.844 | 0.344 | 68.9 |
| | Other Revenues | 0.703 | 0.858 | 0.155 | 22.1 |
| | Total | 11.327 | 12.742 | 1.415 | 12.5 |
| 2007-09 | Personal Income Tax ² | 11.332 ³ | 10.372 ⁴ | (0.960) | (8.5) |
| | Corporate Income Tax | 0.921 | 0.749 | (0.064) | (6.9) |
| | Other Revenues | 0.834 | 0.897 | 0.058 | 7.6 |
| | Total | 13.087 | 12.018 | (0.335) | (8.2) |

Source: State of Oregon, Department of Administrative Services, Office of Economic Analysis.

- (1) Source: 2001-03 and 2003-05 actuals reported in September 2003 and September 2005 Economic and Revenue Forecast, respectively.
- (2) Includes Kicker Offset.
- (3) Source: September 2007 Economic and Revenue Forecast.
- (4) Source: March 2009 Economic and Revenue Forecast.

Table 15 presents historical and forecasted Lottery Revenues and Distributions for the 2001-03 through the 2007-09 biennia.

TABLE 15
LOTTERY REVENUE STATEMENT
(DOLLARS IN MILLIONS)

| | 2001-03 | 2003-05 | 2005-07 | Mar '09 |
|---|--|--|--|------------------------|
| | <u>Actual ¹ (\$)</u> | <u>Actual ² (\$)</u> | <u>Actual ³ (\$)</u> | <u>Forecast</u> |
| LOTTERY EARNINGS | | | | 2007-09 (\$) |
| Regular Lottery | | | | |
| Sports Action | 5.2 | 4.0 | 3.6 | 0.0 |
| Traditional Lottery | <u>130.9</u> | <u>140.1</u> | <u>143.3</u> | <u>132.7</u> |
| Total Regular Lottery | 136.1 | 144.1 | 146.9 | 132.7 |
| Video Lottery | 536.2 | 601.9 | 914.1 | 1,087.5 |
| Other Earnings / Administrative Savings | <u>0.0</u> | <u>34.5</u> | <u>26.7</u> | <u>97.0</u> |
| Total Earnings | <u>672.3</u> | <u>780.6</u> | <u>1,087.7</u> | <u>1,317.2</u> |
| ECONOMIC DEVELOPMENT ACCOUNT | | | | |
| Beginning Balance ⁴ | 6.4 | 11.1 | 0.0 | 64.1 |
| Resources | | | | |
| Lottery Transfers | 672.3 | 780.6 | 1,087.7 | 1,317.2 |
| Other Resources ⁵ | 72.8 | 1.8 | 8.0 | 14.1 |
| Total Available Resources | <u>751.5</u> | <u>793.5</u> | <u>1,095.7</u> | <u>1,395.3</u> |
| Allocation of Resources | | | | |
| County Economic Development | 24.9 | 25.4 | 37.2 | 40.8 |
| Education Stability Fund ⁶ | 110.7 | 140.5 | 195.8 | 237.1 |
| Parks and Natural Resources Fund ⁷ | 110.7 | 117.1 | 163.2 | 197.6 |
| Collegiate Athletics ⁸ | 5.2 | 4.0 | 3.6 | 11.6 |
| Gambling Addiction ⁸ | 6.2 | 6.5 | 8.3 | 13.2 |
| County Fairs | 0.0 | 2.5 | 3.3 | 3.6 |
| Debt Service on Lottery Bonds ⁹ | 71.3 | 119.4 | 133.7 | 167.5 |
| Other Legislatively Adopted Allocations | <u>412.0</u> | <u>378.0</u> | <u>486.4</u> | <u>723.7</u> |
| Total Distributions | <u>740.4</u> | <u>793.5</u> | <u>1,031.6</u> | <u>1,395.0</u> |
| Ending Balance/Discretionary Resources | <u>11.1</u> | <u>0.0</u> | <u>64.1</u> | <u>0.4</u> |

Source: State of Oregon, Department of Administrative Services, Office of Economic Analysis.

Note: Some totals may not foot due to rounding

- (1) Reported in Oregon Economic and Revenue Forecast dated September 2003.
- (2) Reported in Oregon Economic and Revenue Forecast dated May 2005.
- (3) Reported in Oregon Economic and Revenue Forecast dated September 2007.
- (4) One-half of the biennial 2007-09 Ending balance is transferred to the Capital Matching Account, thus reducing the beginning balance for the 2009-11 biennium.
- (5) Includes interest earnings of Economic Development Fund and reversions.
- (6) Eighteen percent of proceeds accrue to the Education Stability Fund, until the balance equals 5% of general fund revenues. Thereafter, 15% of proceeds accrue to the Oregon Capital Matching Account.
- (7) The Parks and Natural Resources Fund constitutional amendment requires 15% of net proceeds be transferred to this fund.
- (8) One percent of net lottery proceeds are dedicated to Collegiate Athletics and Gambling Addiction programs, respectively.
- (9) Reflects funds allocated to pay debt service on outstanding lottery revenue bonds only. Figures do not include future issuance.

Table 16 summarizes Other Funds and Lottery Distributions by revenue source for the 2001-03 through the 2007-09 biennia.

TABLE 16
STATE OF OREGON
OTHER FUNDS AND LOTTERY DISTRIBUTIONS BY REVENUE SOURCE

| TAXES | 2001-03 ¹ | 2003-05 ² | 2005-07 ² | 2007-09 Legislatively Approved Budget (\$) |
|--|-----------------------------|-----------------------------|-----------------------------|---|
| <u>Actual (\$)</u> | <u>Actual (\$)</u> | <u>Estimates (\$)</u> | | |
| SELECTIVE SALES AND USE TAXES | | | | |
| Tobacco Taxes | 309,896,392 | 377,072,437 | 380,179,000 | 531,032,711 |
| Motor Fuels Taxes | 820,297,399 | 839,824,470 | 857,520,174 | 889,774,476 |
| Weight-Mile Taxes | 390,276,296 | 436,850,903 | 483,525,332 | 506,071,428 |
| Privilege Taxes | 18,746,494 | 20,530,065 | 21,141,128 | 30,900,000 |
| Other Selective Sales and Use Taxes | 9,439,677 | 171,401,727 | 245,583,927 | 324,443,656 |
| GROSS RECEIPTS BUSINESS TAXES | | | | |
| Other Gross Receipts Business Taxes | 2,164,808 | 2,811,692 | 4,000,000 | 2,500,000 |
| Amusement Taxes | 2,729,756 | 0 | 3,280,000 | 4,780,000 |
| Public Utilities Taxes | 154,784,386 | 162,193,503 | 159,845,000 | 174,474,562 |
| Insurance Taxes | 0 | 0 | 0 | 157,059,114 |
| EMPLOYER-EMPLOYEE TAXES | | | | |
| Employment Taxes | 1,022,887,483 | 1,466,266,053 | 1,352,071,866 | 1,568,280,850 |
| Workers' Compensation Insurance Taxes | 105,300,499 | 110,537,133 | 96,752,697 | 77,362,907 |
| Other Employer-Employee Taxes | 523,211,602 | 526,384,564 | 580,712,449 | 628,614,954 |
| SEVERANCE TAXES | | | | |
| Eastern Oregon Severance Taxes | 1,658,069 | 35,162 | 0 | 24,000 |
| Western Oregon Severance Taxes | 29,320,036 | 810,014 | 950,000 | 776,000 |
| Other Severance Taxes | 265,108 | 193,335 | 164,707 | 237,000 |
| OTHER TAXES | | | | |
| Forest Protection Taxes | 60,256,895 | 26,013,219 | 29,878,119 | 45,144,065 |
| Other Taxes | 145,553,975 | 147,759,695 | 144,139,489 | 163,996,262 |
| <u>LICENSES AND FEES</u> | | | | |
| BUSINESS LICENSES AND FEES | 256,589,758 | 291,240,955 | 349,908,745 | 408,525,609 |
| NONBUSINESS LICENSES AND FEES | | | | |
| Park User Fees | 35,725,151 | 33,809,842 | 33,579,447 | 33,781,807 |
| Vehicle Licenses | 233,936,167 | 369,748,885 | 410,637,789 | 423,323,045 |
| Drivers Licenses | 67,206,932 | 76,740,661 | 78,474,052 | 77,933,779 |
| Transportation Licenses and Fees | 31,420,666 | 44,289,209 | 64,228,396 | 66,962,183 |
| Hunter and Angler Licenses | 68,362,300 | 82,794,159 | 78,651,512 | 81,469,584 |
| Other Non-business Licenses and Fees | 67,571,614 | 72,935,767 | 76,649,555 | 70,960,177 |
| State Court Fees | 0 | 32,855,960 | 33,899,620 | 96,172,947 |
| <u>FEDERAL FUNDS AS OTHER FUNDS</u> | 2,166,176,695 | 2,033,435,033 | 1,894,096,806 | 1,997,596,152 |
| <u>OTHER REVENUES</u> | | | | |
| CHARGES FOR SERVICES | | | | |
| Tuition and Fees -- Higher Education | 791,212,909 | 991,733,925 | 1,106,265,762 | 1,199,610,827 |
| Fee Remissions -- Higher Education | (55,480,391) | (61,561,058) | (70,634,728) | (75,193,281) |
| Aux. Enterprise & Service Fees Higher Ed. | 316,267,291 | 345,228,853 | 369,075,530 | 368,413,284 |
| Sales and Service Fees -- Higher Education | 205,952,453 | 219,889,270 | 267,867,197 | 300,587,880 |
| Other Charges for Services | 227,569,064 | 490,864,222 | 805,759,938 | 1,265,385,058 |
| FINES, RENTS, AND ROYALTIES | | | | |
| Fines and Forfeitures | 180,654,212 | 188,178,805 | 177,526,128 | 218,646,859 |
| Rents and Royalties | 80,668,938 | 98,021,840 | 107,541,945 | 130,795,240 |

TABLE 16 (Continued)

| <u>OTHER REVENUES (continued)</u> | <u>2001-03¹</u> <u>Actual (\$)</u> | <u>2003-05²</u> <u>Actual (\$)</u> | <u>2005-07²</u> <u>Estimates (\$)</u> | <u>2007-09</u> <u>Legislatively</u> <u>Approved</u> <u>Budget (\$)</u> |
|--|--|--|---|---|
| BOND SALES | | | | |
| General Fund Obligation Bonds | 99,847,582 | 51,519,853 | 104,496,329 | 166,924,035 |
| Dedicated Fund Obligation Bonds | 485,058,594 | 549,249,746 | 492,874,004 | 391,488,401 |
| Lottery Bonds | 161,720,505 | 20,000,000 | 65,495,189 | 199,556,772 |
| Certificates of Participation | 167,071,770 | 126,781,262 | 107,815,676 | 257,980,946 |
| Revenue Bonds | 1,077,792,777 | 1,790,978,316 | 1,825,353,383 | 2,078,675,160 |
| Refunding Bonds | 494,881,717 | 218,384,029 | 29,496,374 | 0 |
| INTEREST EARNINGS | | | | |
| Interest Income | 780,459,004 | 11,939,664,517 | 17,147,706,157 | 11,466,552,057 |
| SALES INCOME | | | | |
| Liquor Sales | 165,644,487 | 189,073,537 | 228,493,460 | 432,860,618 |
| Pari-mutuel Receipts | 2,167,148 | 3,480,702 | 2,543,104 | 5,232,000 |
| State Forest Lands | 96,948,881 | 140,685,558 | 141,573,855 | 157,425,176 |
| Common School Land | 22,109,106 | 31,750,250 | 20,375,254 | 31,200,000 |
| Other Sales Income | 67,868,829 | 65,253,112 | 57,499,289 | 60,341,802 |
| DONATIONS AND CONTRIBUTIONS | | | | |
| Donations and Grants (Non-Fed) | 467,685,405 | 462,715,583 | 516,750,892 | 369,597,501 |
| Retirement System Contribution | 4,606,056,701 | 4,643,154,568 | 3,873,289,582 | 3,497,161,820 |
| LOAN REPAYMENTS | | | | |
| Housing Division Loan Repayment | 304,348,383 | 331,147,751 | 317,317,434 | 365,298,194 |
| Senior Citizen Property Tax Repayments | 19,997,196 | 16,304,807 | 35,651,000 | 40,257,348 |
| Veterans' Loan Repayments | 334,653,827 | 236,844,679 | 242,000,000 | 240,000,000 |
| Other Loan Repayments | 131,227,617 | 133,069,304 | 116,748,215 | 164,730,762 |
| Loan Proceeds | 8,522,375 | 10,436,330 | 33,588,001 | 37,605,000 |
| LOTTERY DISTRIBUTIONS | 738,072,112 | 780,566,766 | 996,724,121 | 1,316,149,647 |
| OTHER REVENUES | <u>1,546,610,398</u> | <u>1,077,307,751</u> | <u>905,134,716</u> | <u>1,159,395,614</u> |
| TOTAL OTHER FUNDS & LOTTERY DISTRIBUTIONS | 20,049,367,048 | 32,417,258,721 | 37,404,197,617 | 34,208,969,829 |

Source: State of Oregon, Department of Administrative Services, Budget and Management Division.

- (1) Reported in 2003-05 Governors' Balanced Budget, Schedule II.
(2) Reported in 2007-09 Governors' Balanced Budget, Schedule II.

Table 17 summarizes total revenues and expenditures for General, Lottery, Other, and Federal Funds for the 2001-03 through the 2007-09 biennia.

TABLE 17
STATE OF OREGON
SUMMARY OF ALL REVENUES AND EXPENDITURES BY FUND
BUDGETARY (NON-GAAP) BASIS
(DOLLARS IN THOUSANDS)

| | 2001-03 <u>Actual</u>¹ | 2003-05 <u>Actual</u>² | 2005-07 <u>Estimates</u>³ | 2007-09 Legislatively Adopted <u>Budget</u>⁴ |
|------------------------------|--|--|---|--|
| Beginning Balance | | | | |
| General Fund | \$458,285 | \$139,612 | \$308,523 ² | \$1,429,391 |
| Lottery Funds | 307,758 | (166,592) | (38,863) ² | 342,639 |
| Other Funds ⁴ | 37,648,573 | 38,350,070 | 48,351,719 ² | 69,373,268 |
| Federal Funds | 3,131 | (4,334) | 21,904 ² | 23,046 |
| Total ⁵ | \$38,417,747 | \$38,318,756 | \$48,800,820 | \$71,168,344 |
| Revenues ⁶ | | | | |
| General Fund | \$ 9,259,267 | \$10,352,487 | \$12,742,006 | \$12,709,913 |
| Lottery Funds | 391,194 | 851,440 | 1,113,909 | 1,314,301 |
| Other Funds | 17,985,875 | 29,177,151 | 41,117,051 | 31,167,318 |
| Federal Funds | 6,137,452 | 6,461,843 | 8,351,198 | 9,239,446 |
| Total ⁵ | \$33,773,787 | \$46,842,921 | \$63,281,452 | \$54,430,978 |
| Expenditures | | | | |
| General Fund | \$9,577,940 | \$10,026,039 | \$11,621,138 | \$13,954,705 |
| Lottery Funds | 865,544 | 723,711 | 732,407 | 1,151,574 |
| Other Funds ⁷ | 17,284,377 | 19,175,502 | 20,095,502 | 23,563,018 |
| Federal Funds | 6,144,917 | 6,435,605 | 8,350,056 | 9,249,497 |
| Total ⁵ | \$33,872,778 | \$36,360,857 | \$40,930,456 | \$47,918,794 |
| Ending Balance | | | | |
| General Fund | \$139,612 | \$466,060 | \$1,429,391 | \$184,599 |
| Lottery Funds | (166,592) | (38,863) | 372,639 | 505,366 |
| Other Funds | 38,350,070 | 48,351,719 | 69,373,268 | 76,977,568 |
| Federal Funds | (4,334) | 21,904 | 23,046 | 12,995 |
| Total ⁵ | \$38,318,756 | \$48,800,820 | \$71,168,344 | \$77,680,528 |

Source: State of Oregon, Department of Administrative Services, Budget and Management Division.

- (1) Source is the Oregon State 2003 CAFR Budgetary Schedules except Other Funds, which is from 2001-03 Actuals in the Governor's Recommended Budget 2005-07.
- (2) Source is the Oregon State 2005 CAFR Budgetary Schedules except Other Funds, which is from 2003-05 Actuals in the Governor's Recommended Budget 2007-09.
- (3) Source is the 2007-09 Governors' Recommended Budget.
- (4) Source for Lottery Funds, Other Funds and Federal Funds is the Oregon Budget Information Tracking System (ORBITs) audited Legislatively Adopted Budget 2007-09.
- (5) Source is the Oregon Economic and Revenue Forecast, September 2007, Table B.1a.
- (6) Beginning balances include dedicated Trust Funds such as workers' compensation insurance reserves, Public Employees Retirement contributions, unemployment insurance reserves, and general obligation and revenue bond proceeds.
- (7) Totals may not agree with sum of components due to rounding.
- (8) Revenues are net of Transfers In from Other Funds, Transfers Out to Other Funds, Other Financing Sources and Uses Prior Period Adjustments and Prior Biennium Transactions.
- (9) Other Fund expenditures include "non-add" expenditures, which are generally intra-agency transfers that fund administrative functions and are paid for by agency programs.

Table 18 summarizes expenditures by statewide program area for all fund types for the 2001-03 through the 2007-09 biennia.

TABLE 18
SUMMARY OF EXPENDITURES BY PROGRAM AREA BY FUND
(DOLLARS IN MILLIONS)

| Program Area | 2001-03 Actual Expenditures ¹ | | | | | 2003-05 Actual Expenditures ² | | | | | 2005-07 Estimates ² | | | | | 2007-09 Legislatively Adopted Budget | | | | |
|---|--|--------------------------------|---|--------------------------------|------------------------------|--|--------------------------------|---|--------------------------------|------------------------------|--------------------------------|--------------------------------|---|--------------------------------|------------------------------|--------------------------------------|--------------------------------|---|--------------------------------|------------------------------|
| | <i>General</i> <i>Fund</i> | <i>Lottery</i> <i>Funds</i> | <i>Other</i> <i>Funds</i> ³ | <i>Federal</i> <i>Funds</i> | <i>Total</i> <i>Funds</i> | <i>General</i> <i>Fund</i> | <i>Lottery</i> <i>Funds</i> | <i>Other</i> <i>Funds</i> ³ | <i>Federal</i> <i>Funds</i> | <i>Total</i> <i>Funds</i> | <i>General</i> <i>Fund</i> | <i>Lottery</i> <i>Funds</i> | <i>Other</i> <i>Funds</i> ³ | <i>Federal</i> <i>Funds</i> | <i>Total</i> <i>Funds</i> | <i>General</i> <i>Funds</i> | <i>Lottery</i> <i>Funds</i> | <i>Other</i> <i>Funds</i> ³ | <i>Federal</i> <i>Funds</i> | <i>Total</i> <i>Funds</i> |
| Education | 5,205 | 678 | 3,448 | 779 | 10,110 | 5,875 | 515 | 3,471 | 687 | 10,548 | 6,362 | 514 | 3,957 | 1,091 | 11,924 | 7,477 | 726 | 4,277 | 1,138 | 13,618 |
| Human Services | 2,394 | 6 | 1,202 | 4,650 | 8,252 | 2,200 | 6 | 1,145 | 4,747 | 8,098 | 2,674 | 9 | 1,218 | 6,185 | 10,086 | 3,422 | 13 | 1,414 | 6,930 | 11,779 |
| Public Safety | 1,221 | 4 | 731 | 133 | 2,089 | 1,210 | 6 | 280 | 366 | 1,862 | 1,494 | 6 | 301 | 303 | 2,104 | 1,846 | 7 | 533 | 353 | 2,738 |
| Judicial Branch | 371 | --- | 18 | 1 | 390 | 401 | --- | 34 | 1 | 436 | 447 | --- | 31 | 1 | 479 | 531 | --- | 43 | 1 | 575 |
| Economic & Community Development | 18 | 74 | 4,524 | 376 | 4,992 | 17 | 85 | 4,383 | 382 | 4,867 | 21 | 101 | 4,192 | 481 | 4,795 | 34 | 138 | 4,368 | 501 | 5,041 |
| Natural Resources | 141 | 94 | 764 | 154 | 1,153 | 112 | 87 | 789 | 193 | 1,181 | 125 | 159 | 802 | 208 | 1,294 | 158 | 213 | 975 | 222 | 1,567 |
| Transportation | 17 | 10 | 1,759 | 46 | 1,832 | 4 | 21 | 2,579 | 46 | 2,650 | 9 | 22 | 2,592 | 75 | 2,698 | 5 | 47 | 3,340 | 88 | 3,479 |
| Consumer and Business Services | 11.5 | --- | 632 | 1 | 644 | 11 | --- | 685 | 1 | 697 | 11 | --- | 769 | 2 | 782 | 13 | --- | 861 | 2 | 876 |
| Administration | 149 | --- | 4,199 | 5 | 4,353 | 144 | 5 | 5,806 | 14 | 5,969 | 165 | 7 | 6,277 | 11 | 6,460 | 189 | 7 | 7,712 | 14 | 7,922 |
| Legislative Branch | 52 | --- | 7 | --- | 59 | 53 | --- | 4 | --- | 57 | 64 | --- | 8 | --- | 72 | 81 | --- | 41 | --- | 122 |
| Miscellaneous-(Incl. E-Board) | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 235 | --- | --- | --- | 235 | 201 | --- | --- | --- | 201 |
| Statewide Total Expenditures⁴ | 9,579 | 866 | 17,284 | 6,145 | 33,874 | 10,027 | 725 | 19,176 | 6,437 | 36,365 | 11,607 | 818 | 20,147 | 8,357 | 40,929 | 13,955 | 1,152 | 23,563 | 9,531 | 47,919 |

Source: State of Oregon, Department of Administrative Services, Budget and Management Division.

- (1) Reported in Governor's Balanced Budget, 2005-07.
- (2) Reported in Governor's Recommended Budget, 2007-09.
- (3) Other Fund expenditures include "non-add" expenditures, which are generally intra-agency transfers that fund administrative functions and are paid for by agency programs.
- (4) Totals may not agree with sum of components due to rounding.

PENSION AND POST EMPLOYMENT BENEFITS

The State participates in three retirement pension benefit programs provided through the Oregon Public Employees' Retirement System ("PERS" or the "System") and three retirement healthcare benefit programs (two provided through PERS and one provided by the State's Public Employees' Benefit Board ("PEBB")). Most public employers in Oregon, including State government employers, participate in PERS.¹ Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). The Public Employees' Retirement Board (the "PERS Board") administers PERS and is responsible for setting policies and for providing administrative direction to PERS.

System Pension Programs

The three PERS pension programs are composed of two of defined benefit programs and one program that has features similar to a defined contribution plan. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (determined by statute, currently 6 percent of salaries and 7 percent for judges) fund these pension programs.

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based primarily on a defined benefit model. Employees hired on or after January 1, 1996 and before August 29, 2003 are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the "T1/T2 Pension Programs") known as the Oregon Public Service Retirement Plan ("OPSRP").

PERS also offers a program that has features similar to a defined contribution benefit known as the Individual Account Program ("IAP"). Effective January 1, 2004, active Tier 1, Tier 2 (T1/T2) and OPSRP employees became members of the IAP. Tier 1 and Tier 2 employees retain their existing T1/T2 Pension Program account, but the IAP account receives any future member contributions.

System Pension Plan Asset and Liabilities Valuations

Oregon statutes require an actuarial valuation of the System by a competent actuary at least once every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. Valuations are released approximately one year after the valuation date. The State's current PERS actuary is Mercer (US), Inc. ("Mercer").

Mercer released its December 31, 2007 valuation for the System (the "2007 System Valuation") on October 14, 2008. The 2007 System Valuation includes an actuarial valuation for the T1/T2 Pension Programs and OPSRP. In connection with the T1/T2 Pension Programs, the State is pooled with certain local governments and community college districts (the "State and Local Government Rate Pool" or

¹ In addition, the Oregon Health and Science University and the Oregon University System have each established alternatives to the participation in PERS. See footnote 12 in the State's Basic Financial Statements in Appendix B.

“SLGRP”). Because OPSRP’s assets and liabilities are pooled on a program-wide basis, the State is pooled with all Oregon local governments in connection with OPSRP. Mercer released a December 31, 2007 valuation for the State (the “2007 State Valuation”) on September 26, 2008, which provides the State’s portion of the unfunded actuarial liabilities of the SLGRP and OPSRP based on the State’s proportionate share of total System covered payroll.

An employer’s unfunded actuarial liability (“UAL”) is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. The following methods and assumptions adopted by the PERS Board are the basis for the actuarial valuations:

Assumption/Method

| | |
|---|--|
| Actuarial Cost Method: | Projected Unit Credit |
| UAL Amortization Method: | |
| T1/T2 Programs | Level Percentage of Payroll over 20 years (fixed) |
| OPSRP | Level Percentage of Payroll over 16 years (fixed) |
| Asset Valuation Method: | Market Value ¹ |
| Investment Rate of Return: | 8.00% |
| Payroll Growth Rate: | 3.75% |
| Inflation Level: | 2.75% |
| Contribution Rate Stabilization Method: | Contribution rate will not increase or decrease from prior rate by more than the greatest of 3 percentage points or 20% of the prior contribution rate. If funded percentage drops below 80% or increases above 120%, the size of the collar doubles |

(1) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).

In addition to the actuarial methods and assumptions listed above, the actuary uses other methods, procedures and economic and demographic assumptions when performing its actuarial valuations.

The table below shows the actuarial value of assets and liabilities, the UALs and surpluses and funded ratios for PERS pension plans for the past ten years. For similar information regarding the PERS-sponsored retirement healthcare benefit programs see Tables 21 and 22.

TABLE 19
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – PENSION
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS)

| Year Ending | Actuarial Value of Assets¹ (\$) | Actuarial Liability (\$) | Unfunded Actuarial Liability (\$) | Funded Ratio (%) |
|-------------------------|---|-------------------------------------|--|-----------------------------|
| 1997 | 29,097.2 | 31,178.0 | 2,080.8 | 93.3 |
| 1999 | 39,920.9 | 40,395.4 | 474.5 | 98.8 |
| 2000 | 41,739.6 | 42,783.9 | 1,044.3 | 97.6 |
| 2001² | 39,772.7 | 37,258.3 | -2,514.4 | 106.7 |
| 2002 | 35,446.9 | 38,947.0 | 3,500.1 | 91.0 |
| 2003 | 42,753.3 | 44,078.1 | 1,324.8 | 97.0 |
| 2004³ | 45,708.3 | 47,398.6 | 1,690.3 | 96.4 |
| 2005⁴ | 51,403.9 | 49,294.0 | -2,109.9 | 104.3 |
| 2006 | 56,616.5 | 51,252.9 | -5,363.6 | 110.5 |
| 2007 | 59,327.8 | 52,871.2 | -6,456.6 | 112.2 |

Sources: Actuarial valuations of System.

- (1) Beginning in 1999, includes proceeds of pension bonds issued by Oregon local governments and the State.
- (2) In 2003, the Oregon Legislative Assembly enacted significant changes to the System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the System. Two actuarial valuations of the System were performed as of December 31, 2001, one prior to and one after the enactment of the 2003 reform legislation. The 2001 numbers reported in this table reflect the impact from the 2003 reform legislation. See "Litigation – Challenges Related to PERS" for discussion on litigation regarding the 2003 reform legislation.
- (3) Effective with the 2004 valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes.
- (4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

The following table shows the investment returns for the OPERF for the last ten calendar years.

TABLE 20
OREGON PUBLIC EMPLOYEES
RETIREMENT FUND INVESTMENT RETURNS ¹

| <u>Year</u> <u>Ending</u> | <u>Net</u> <u>Returns (%)</u> |
|--|--|
| 1999 | 21.90 |
| 2000 | 2.08 |
| 2001 | -6.48 |
| 2002 | -7.91 |
| 2003 | 22.67 |
| 2004 | 14.47 |
| 2005 | 13.48 |
| 2006 | 15.30 |
| 2007 | 9.66 |
| 2008 | -26.96 |

Source: Office of the State Treasurer.

(1) Before administrative expenses.

The funded status of the pension programs may change depending on the market performance of the securities that OPERF is invested, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. No assurance can be given that the UAL of the pension programs and the State's contribution rates will not materially increase.

Other Post Employment Benefits

In addition to pension benefits, the State provides healthcare benefits (medical, vision and dental) to approximately 38,674 retirees through PERS and to approximately 3,109 retirees through PEBB. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB.

The Government Accounting Standards Board (GASB) has issued two pronouncements that affect the State's accounting and financial reporting for post employment benefits other than pensions ("OPEBs"): GASB Statement No. 43 ("GASB 43") and GASB Statement No. 45 ("GASB 45"). The State has reported for the fiscal year ending June 30, 2007 under GASB 43 and will report for the fiscal year ending June 30, 2008 under GASB 45. Mercer calculated the valuation information presented below for healthcare benefits provided through PERS, derived from the 2007 System Valuation, under the GASB 43 and GASB 45 standards.

PERS-Sponsored Retirement Health Insurance Account Plan (RHIA)

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may receive a subsidy towards the payment of health insurance premiums. ORS 238.420 established the Retirement Health Insurance Account ("RHIA") program under which qualified retirees may receive a subsidy for Medicare supplemental

health insurance of up to \$60 per month towards the cost of their health insurance premiums. The State's employer contribution rate for the RHIA program for the 2007-09 biennium is 0.37 percent and is a component of the State blended employer contribution rate of 6.71 percent for the 2007-09 biennium. The employer contribution rate for RHIA paid by the State is based on the annual required contribution (ARC) calculated for the biennium. No assurance can be given that the RHIA UAL and the State's contribution rates will not materially increase.

TABLE 21
RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS)

| <u>Year</u> <u>Ending</u> | <u>Program</u> <u>UAL (\$)</u> | <u>Program</u> <u>Funded Ratio (%)</u> | <u>State Share</u> <u>of UAL¹ (\$)</u> |
|--|---|---|--|
| 2002 | 454.9 | 16.1 | 122.8 |
| 2003 | 405.4 | 22.4 | 111.1 |
| 2004 | 408.9 | 26.6 | 111.7 |
| 2005 | 314.9 | 36.5 | 84.7 |
| 2006 | 290.3 | 43.3 | 77.1 |
| 2007 | 248.8 | 50.2 | 66.5 |

Source: Actuarial valuations of System; PERS.

(1) Information regarding the State's share of the RHIA UAL not available separate from SLGRP prior to 2002.

PERS-Sponsored Retiree Health Insurance Premium Account Plan (RHIPA)

Another subsidy is available to pre-Medicare-age State retirees through the Retiree Health Insurance Premium Account (RHIPA) plan. On or before January 1 of each year, the PERS Board calculates the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the PERS Board and health insurance premiums paid by State employees who are not retired. RHIPA authorizes payment of this average difference to qualified retired State employees. The State's employer contribution rate for the RHIPA plan for the 2007-09 biennium is 0.10 percent of covered payroll and is a component of the State blended employer contribution rate of 6.71 percent. The employer contribution rate for RHIPA paid by the State is based on the ARC calculated for the biennium. No assurance can be given that the RHIPA UAL and the State's contribution rates will not materially increase.

TABLE 22
RETIREE HEALTH INSURANCE PREMIUM ACCOUNT (RHIPA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS)¹

| <u>Year Ending</u> | <u>Program UAL (\$)</u> | <u>Program Funded Ratio (%)</u> |
|--------------------|-------------------------|---------------------------------|
| 2002 | 28.4 | 9.0 |
| 2003 | 21.0 | 16.0 |
| 2004 | 23.0 | 18.4 |
| 2005 | 20.9 | 22.7 |
| 2006 | 16.4 | 29.9 |
| 2007 | 15.5 | 33.6 |

Source: Actuarial valuations of System.

(1) RHIPA benefits are only available to State employees; therefore, the RHIPA plan UAL is allocable entirely to the State.

PEBB Retiree Health Insurance Benefit Plan

In addition to the pension and healthcare benefits provided to retired State employees through PERS, the State provides healthcare benefits (medical, vision and dental) through PEBB to approximately 3,109 retirees who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. PEBB's obligations to provide benefits are State obligations for accounting purposes. The PEBB OPEB obligation exists because the State is providing an implicit rate subsidy to retirees for PEBB benefits that are offered to both retirees and active employees, where the retiree pays the same premium amount as active employees.

The State's actuary for PEBB, AON Employee Benefits Consulting ("AON"), has completed an actuarial valuation dated April 11, 2007 for purposes of complying with the OPEB standards (GASB 43 and GASB 45). The valuation was prepared using the Entry Age Normal actuarial cost method, an amortization period of 30 years, and an assumed discount rate of 4.5 percent. The State's actuarial accrued liability at the valuation date of July 1, 2006 for post-employment benefits provided through PEBB is an estimated \$309.0 million. GASB 45 will require the actuarial accrued liability to be disclosed in the notes to the State's financial statements when GASB 45 is implemented. For fiscal year 2008, the ARC to be recognized as the annual employer OPEB cost for post-employment benefits provided through PEBB is estimated to be \$33.5 million. AON has determined that if the State continues to fund the PEBB OPEB on a pay-as-you-go basis, the liability at the end of fiscal year 2008 that will be recognized in the State's financial statements is estimated to be \$20.0 million, which is the difference between the estimated \$33.5 million ARC and the pay-as-you-go contribution of approximately \$13.5 million.

The State expects the next actuarial valuation for PEBB OPEB obligations to be as of July 1, 2008 and released by March 2010.

State of Oregon Experience

The following table shows the number of active State members in the T1/T2 Pension Programs and OPSRP.

TABLE 23
ACTIVE STATE PERS MEMBERS

| <u>Year Ending</u> | <u>Active T1/T2 Members</u> | <u>Active OPSRP Members¹</u> | <u>Total</u> | <u>Percent Change (%)</u> |
|--------------------|---------------------------------|---|--------------|-------------------------------|
| 2002 | 41,389 | --- | 41,389 | -0.4 |
| 2003 | 40,010 | --- | 40,010 | -3.3 |
| 2004 | 37,419 | --- | 37,419 | -8.4 ² |
| 2005 | 34,588 | 6,583 | 41,171 | 10.0 |
| 2006 | 34,151 | 8,411 | 42,562 | 3.4 |
| 2007 | 32,140 | 10,684 | 42,824 | 0.6 |

Source: PERS Annual Valuation Reports

- (1) Information regarding OPSRP membership not available prior to 2005 because first year actuarial valuation of OPSRP is as of December 31, 2005.
- (2) Decrease in percentage of active State PERS members reflects lack of information regarding OPSRP membership prior to 2005 although new employees hired after August 29, 2003 became members of OPSRP.

State Pension Plan Asset and Liabilities

The following table shows the State's portion of the actuarial value of assets and liabilities, UALs and surpluses and funded ratios for PERS pension programs for the past five years for which actuarial valuations were performed. For the T1/T2 Pension Programs, the State's portion of PERS' assets and liabilities is based upon the State's proportionate share of SLGRP's pooled covered payroll (as of December 31, 2007, approximately 48.38 percent) and reflects proceeds from the State pension bonds issued in October 2003 in the aggregate principal amount of \$2.1 billion (the "State Pension Bonds"). For OPSRP, the State's proportionate share is based upon the State's share of total System covered payroll (as of December 31, 2007, approximately 26.72 percent). The State's proportionate liability may increase if other participants fail to pay their full employer contributions.

TABLE 24
STATE OF OREGON
HISTORICAL ACTUARIAL FUNDED RATIOS – PENSION
(DOLLARS IN MILLIONS)

| <u>Year Ending¹</u> | <u>Actuarial Value of Assets² (\$)</u> | <u>Actuarial Liability (\$)</u> | <u>Unfunded Actuarial Liability (\$)</u> | <u>Funded Ratio (%)</u> |
|---|--|--|---|------------------------------------|
| 2002 | 11,421.3 | 10,724.3 | (697.0) | 106.5 |
| 2003 | 12,348.7 | 12,157.5 | (191.1) | 101.6 |
| 2004³ | 13,084.7 | 13,217.0 | 132.3 | 99.0 |
| 2005⁴ | 14,155.8 | 13,339.1 | (816.7) | 106.1 |
| 2006 | 15,598.1 | 13,823.3 | (1,774.8) | 112.8 |
| 2007 | 15,769.3 | 13,611.1 | (2,158.2) | 115.9 |

Source: PERS.

- (1) Information regarding the State's actuarial funded ratios separate from SLGRP is not available prior to 2002.
- (2) Includes State Pension Bonds proceeds beginning in 2002. Although the State Pension Bonds were issued in October 2003, the State's PERS actuary included the proceeds of the State Pension Bonds in the State's 2002 valuation by discounting the proceeds on a present value basis to December 31, 2002.
- (3) Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.
- (4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

State Employer Contribution Rates

At the end of each odd-numbered year, valuations determine employer contribution rates. The State's December 31, 2005 valuation for the T1/T2 Pension Programs (the "T1/T2 State Valuation") and the December 31, 2005 valuation for OPSRP (the "2005 OPSRP Valuation") determines its current employer contribution rates. These rates are effective for the 2007-09 biennium. The 2007 State Valuation provides the employer contribution rates for the 2009-11 biennium.

The following table shows the State's employer contribution rates expressed as percentages of the actuarially determined covered payroll for PERS pension and PERS-sponsored healthcare costs for the 2007-09 and rates for the 2009-11 biennia.

TABLE 25
STATE CONTRIBUTION RATES

| <u>Payrolls Paid</u> | <u>2007-09 (%)</u> | <u>2009-11 (%)</u> |
|-----------------------------|---------------------------|---------------------------|
| T1/T2 | 6.54 | 4.31 |
| OPSRP General Services | 8.03 | 5.05 |
| OPSRP Police and Fire | 11.03 | 7.92 |
| Judiciary ¹ | 18.70 | 14.97 |
| Blended Rate | 6.71 | 4.54 |

Sources: 2005 T1/T2 State Valuation, 2005 OPSRP Valuation, 2006 State Valuation, State Judiciary Valuation as of December 31, 2006, and PERS.

- (1) Members of the Oregon state judiciary are participants of the T1/T2 Pension Programs; however, their benefits are determined in a different manner than other T1/T2 Pension Program participants and therefore, the employee contribution rate for the judiciary is calculated separately. According to the 2007 System Valuation and the State Judiciary Valuation as of December 31, 2007, the value of the covered payroll of the judiciary as of December 31, 2007 is approximately \$17.4 million, compared to the value of the covered payroll of the entire T1/T2 Pension Programs of approximately \$6,261.9 million as of December 31, 2007.

State Contributions

The following table shows the amount of State contributions paid to PERS for the three pension programs and the PERS-sponsored health care programs for the past seven fiscal years and the amount paid for the debt service on the State Pension Bonds.

TABLE 26
STATE CONTRIBUTIONS TO PERS AND PERS-RELATED DEBT SERVICE
(DOLLARS IN MILLIONS)
 As of January 27, 2009

| Year Ending 6/30 | State Contribution to PERS¹ (\$) | Percent Change (%) | Employee Contribution² (\$) | POB Debt Service³ (\$) | Total (\$) | Percent Change (%) |
|---------------------------------|--|-----------------------------------|---|--|-------------------|-----------------------------------|
| 2000 | 183.3 | --- | 96.2 | --- | 279.5 | --- |
| 2001 | 193.4 | 5.5 | 101.3 | --- | 294.7 | 5.4 |
| 2002 | 189.4 | -2.1 | 105.4 | --- | 294.8 | 0.0 |
| 2003 | 195.1 | 3.0 | 103.8 | --- | 298.9 | 1.4 |
| 2004 | 132.0 | -32.3 | 111.1 | --- | 243.1 | -18.7 |
| 2005 | 107.6 | -18.5 | 108.7 | 111.5 | 327.8 | 34.8 |
| 2006 | 90.5 | -15.9 | 115.9 | 118.8 | 325.2 | -0.8 |
| 2007 | 70.3 | -22.3 | Not Available | 120.8 | | - |

Sources: Footnote 12, *State of Oregon Basic Financial Statements for Fiscal Years ended June 30, 2007, 2006, 2005 and 2004*; *PERS and Office of the State Treasurer*.

- (1) Amount does not include employer paid employee portion but does include amounts paid for discretely presented component units (SAIF Corporation and Oregon Health and Science University) as well as primary government.
- (2) The State pays the employee contributions. Years 2000 and 2001 amounts based on 6 percent contribution rate and actual annual covered payroll reported to actuaries. Years 2003 through and including 2006 amounts based on 6 percent contribution rate and combined valuation-covered payroll from actuarial valuations of the System.
- (3) Fiscal Year State Pension Bonds debt service. Fiscal year 2004 and 2005 debt service is net of capitalized interest. The State issued Pension Bonds October 31, 2003. As of December 31, 2008, \$2.07 billion aggregate principal amount of State Pension Bonds remain outstanding.

DEBT AUTHORITY AND BOND ISSUANCE

Administration

Oregon law authorizes the State Treasurer to coordinate the issuance of all State of Oregon bonds. The Treasurer reviews and approves the terms and conditions of bond sales and issues all bonds for State agencies. By centralizing this authority, the agencies for which bonds are issued are encouraged to plan their offerings well in advance and to work together to obtain the most favorable market reception. In addition, the uniform approach permits greater control of the State's overall debt position, allowing the Treasurer to address the interests and concerns of the financial community and rating agencies as well as those of the State agencies.

The State Treasurer advises the Governor on the total biennial bonding level for State agency programs in the development of the Governor's recommended budget. The Legislative Assembly authorizes bonds to be issued for each agency's program in the "biennial bonding bill". The Governor's recommended budget includes requests by agencies for bonds to fund their capital project needs, as well as agencies' grant and loan programs. The Legislative Assembly reviews each program request and approves what it determines to be an appropriate level of issuance in the biennial bonding bill.

The State generally issues four types of "long-term" financing obligations: general obligation bonds, appropriation obligations, direct revenue bonds and conduit revenue bonds. The State also may issue full faith and credit short-term borrowings, known as "Tax Anticipation Notes." The Treasurer approves financing agreements, including lease purchase agreements, installment sales agreements and loan agreements to finance real or personal property and approves certificates of participation with respect to the financing agreements. The principal amount of such financing agreements is treated as bonds subject to the biennial bonding bill.

Prior to the issuance of bonds, typically agencies submit reports to the State Treasurer that project future cash flows, the agency's ability to meet future debt service, and the agency's historical performance on payments and delinquencies. Agencies must also provide cash flow projections and other requested information to the State Treasurer on a periodic basis. Agency bond programs may be audited annually with the audit results published as soon after the audit as possible.

Capital Needs and Budget Process

Oregon law requires the Governor's budget to include capital construction needs for a minimum of six years. Prior to the biennial preparation of the Governor's recommended budget, agencies submit their projected capital needs for the upcoming biennium and for the two subsequent biennia. These requests are evaluated and placed in the Governor's recommended budget under one of two categories: capital improvements (less than \$500,000) or major construction and acquisition projects (greater than \$500,000). The capital improvement projects are included in agency operating budget appropriation bills. The major construction and acquisition projects are approved by the Legislative Assembly in the biennial bonding bill.

Authorization

The Oregon Constitution prohibits state government from incurring any indebtedness that exceeds \$50,000. Consequently, all general obligation bonds are authorized by an amendment to the Oregon Constitution that has been approved by Oregon voters and that permits bonds to be issued as an exception to the constitutional debt limit. The amount of general obligation bonds that may be issued is

usually expressed in the Constitution as a percentage of the statewide property value. The general obligation bond programs are also subject to legislative direction. The Legislative Assembly may place limits on general obligation bond programs that are more restrictive than those approved by the voters.

The State's general obligation (GO) debt is secured by the full faith and credit of the State of Oregon. In addition to any revenues from the program for which the bonds are issued, general obligation bonds may be paid from any undedicated and unrestricted moneys of the State. A property tax also may be levied to pay some of the State's general obligation bonds, although the State has not levied a tax to pay any bonds in many years.

The State also issues appropriation credits that are special limited obligations of the State payable solely from funds appropriated or otherwise made available by the Legislative Assembly. The obligation of the State to provide appropriated moneys and to pay those borrowings is subject to future appropriation by the Legislative Assembly for the fiscal period in which payments are due.

A variety of revenue bond programs operate under statutory authority from the Legislative Assembly. Each program is fully self-supporting, and they have no general obligation backing from the State. The Legislative Assembly, however, could provide a funding stream if program revenues were insufficient to support debt service payments. The Legislative Assembly normally limits revenue bonds to a specific dollar amount.

The Legislative Assembly has authorized several conduit revenue bond programs. Under these programs, the State is the issuer of the bonds, but debt service payments are only from the entities on whose behalf the bonds are issued. The bonds are repaid only from revenues generated by the projects financed or from other sources available to a borrower. The State has no financial obligation for these bonds and bondholders have no recourse against the properties, funds or assets of the State.

Table 27 lists the amount of debt that the Legislative Assembly has authorized for State agencies in the current biennium. The State's various bond programs are summarized below.

General Obligation Bonds

Currently there are 16 constitutionally authorized GO bond programs. Although each of these programs may draw on the State's General Fund or other taxing authority, most of the programs are fully self-supporting from program or other revenue streams. Each program and its constitutional authorization are described below. See Table 28 for bonds outstanding for active State general obligation bond programs.

General Purpose and Roads Bonds. Section 7 of Article XI of the State Constitution generally limits the State's indebtedness to \$50,000. There is an exception, however, in cases of war or invasion and for building and maintaining roads. The State may incur indebtedness not to exceed one percent of the value of all taxable property in the State to build and maintain permanent roads.

Veterans Welfare Bonds. Section 1 of Article XI-A authorizes the State to incur indebtedness not to exceed eight percent of the value of property in the State to create the Oregon War Veterans' Fund. Moneys in the fund are used for a self-supporting loan program under which the repayments of loans to Veterans are sufficient to pay the debt service on the outstanding bonds. If loan repayments are insufficient to pay the bonds, the State may levy a limited property tax to repay the bonds.

State Power Development Bonds. Article XI-D authorizes the State to incur indebtedness of up to one and one-half percent of the value of all taxable property in the State, to provide for the

development of hydroelectric power plants and transmission and distribution lines. This never-used Constitutional amendment was adopted in 1932.

State Forest Rehabilitation Bonds. Article XI-E authorizes the State to incur indebtedness in an amount not to exceed three-sixteenths of one percent of the value of all taxable property in the State to provide for the reforestation of land that the State currently owns or may acquire for the purpose of reforestation. Funds generated by the reforestation must be used to repay any outstanding debt issued under this provision. This program was put in place in response to a large forest fire in 1933. It has not been used since 1971, and there are currently no outstanding bonds under this authorization.

Higher Education Building Bonds. Article XI-F authorizes the State to incur indebtedness of three-quarters of one percent of the value of all taxable property in the State for higher education building projects. These projects must be wholly self-supporting and self-liquidating from revenues, gifts, grants or building fees. If the projects do not provide enough funds to repay the debt service on the bonds, the State may levy a property tax to pay the bonds.

Higher Education Facilities and Community College Bonds.¹ In addition to the debt provisions of Article XI-F(1), Article XI-G authorizes the State to incur indebtedness of up to three-quarters of one percent of the value of all taxable property in the State for higher education projects, including community colleges projects. Unlike Article XI-F(1), however, these projects do not need to be 100 percent self-supporting. There must be a matching appropriation from the General Fund, however, before bonds may be issued. The State may levy a property tax to repay this debt.

Pollution Control Bonds. Article XI-H authorizes the State to incur indebtedness for pollution abatement and control facilities, and for pollution control and disposal activities, of State and local government agencies in an amount that does not exceed one percent of the value of all taxable property in the State. Facilities funded by this program must “conservatively appear” to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, user charges, assessments and other fees. Pollution control and disposal activities, and hazardous substance facilities, are not subject to this self-supporting requirement. Property taxes may be levied to repay this debt if revenues are insufficient.

Water Resources Bonds. Article XI-I(1) authorizes the State to incur indebtedness in an amount not to exceed one and one-half percent of the value of all property in the State to fund loans for construction of water development projects for irrigation and drainage, community water supply, fish protection projects and watershed restoration projects. Not less than fifty percent of these funds are reserved for irrigation and drainage projects. The program is a self-supporting loan program; however, if revenues from loan repayments are insufficient to pay debt service, the State may levy a property tax to pay the bonds.

Elderly and Disabled Housing Bonds. Article XI-I(2) authorizes the State to incur indebtedness in an amount not to exceed one-half of one percent of the value of all taxable property in the State to provide financing for multifamily housing for elderly and disabled persons. Statewide property taxes may be levied to pay the debt if revenues from loan repayments are insufficient.

Alternate Energy Bonds. Article XI-J authorizes the State to incur indebtedness in an amount not to exceed one-half of one percent of the value of all property in the State to provide funds for loans

¹ The Department of Higher Education issues Facilities bonds, whereas the Department of Education issues Community College bonds. Total debt authorized by Article XI-G of the State Constitution is a combination of Higher Education and Community College bond issuance.

for small-scale local energy projects. The program is intended to be a self-supporting loan program. If loan repayments are insufficient to repay the bonds, a property tax may be levied to repay the bonds.

Oregon School Bond Guaranty Program. Article XI-K authorizes the State Treasurer to pledge the full faith and credit of the State to guarantee the general obligation bonds of Oregon's common or union high school districts, education service districts or community college districts. The State Treasurer may also issue State general obligation bonds in an amount not to exceed one-half of one percent of the value of all taxable property in the State to meet the State's guaranty obligations. A property tax may be levied to repay any of the State's bonds issued for this purpose. The State has not issued any bonds under this authorization. The State however, guarantees outstanding school district bonds of approximately \$2.4 billion under this program.

Oregon Opportunity Bonds. Article XI-L authorizes the State to incur indebtedness not to exceed one-half of one percent of the value of all property in the State to finance capital costs of the Oregon Health and Science University in an aggregate principal amount that produces net proceeds for the University of up to \$200 million. The State is not authorized to levy a property tax to pay these bonds.

Seismic Rehabilitation of Public Education Building. Article XI-M authorizes the State to incur indebtedness in an amount not to exceed one-fifth of one percent of the value of all property in the State to provide funds for the planning and implementation of seismic rehabilitation of public education buildings. The State is not authorized to levy a property tax to pay these bonds. The State has not issued any bonds for this program.

Seismic Rehabilitation of Emergency Services Buildings. Article XI-N authorizes the State to incur indebtedness in an amount not to exceed one-fifth of one percent of the value of all property in the State to provide funds for the planning and implementation of seismic rehabilitation of emergency services buildings. The State is not authorized to levy a property tax to pay these bonds. The State has not issued any bonds for this program.

Pension Obligation Bonds. Article XI-O authorizes the State to incur indebtedness in an amount not to exceed one percent of the value of all property in the State to finance the State's pension liabilities. The State is not authorized to levy a property tax to pay these bonds.

Tax Anticipation Notes

ORS 293.173 authorizes a short-term, full faith and credit, borrowing program for the State through the issuance of Tax Anticipation Notes (TANs). The State may borrow and issue notes in anticipation of the collection of State taxes and revenues to be received during a biennium. The notes typically mature within 13 months. They are not considered debt within the meaning of any Constitutional prohibition because they mature and are repaid within a biennium. If the State General Fund or other available revenues are insufficient to pay the TANs, the State Treasurer may use internal borrowing to make any required payment.

Appropriation Credits

Oregon Appropriation Bonds – SB 856 – 2003 Legislative Session. After an approximately \$2-billion decline in revenues during the 2001-2003 biennium, the Legislative Assembly authorized the issuance of Oregon Appropriation Bonds to pay for education, human services and other expenditures and to provide a beginning General Fund balance for the next biennium. In April 2003, the State issued approximately \$430 million in Oregon Appropriation Bonds. It was the Legislative Assembly's intention

to use payments to the State under the Master Settlement Agreement entered into with the major tobacco companies to pay the debt service on the bonds. The obligations, however, are appropriation credits and payment is subject to an appropriation by the Legislative Assembly in each biennium. The State does not have current authority to issue additional Oregon Appropriation Bonds.

Certificates of Participation – ORS 283.085 to 283.092. The State may enter into financing agreements to finance real and personal property projects for State agencies using certificates of participation. Each certificate represents an interest in and right to receive a portion of loan payments made by the State to a trustee for the certificate holders. The State's obligation to make the loan payments is subject to appropriation by the Legislative Assembly of the payment amounts each biennium. In some cases, the State's repayment obligation is also secured by a pledge of certain projects financed by the certificates as collateral.

Direct Revenue Bonds

The State operates a variety of revenue bond programs authorized by the Legislative Assembly. The following describes statutorily authorized direct revenue bond programs. See Table 28 for a summary of bonds outstanding under active State revenue bond programs.

State Highway User Tax Bonds – ORS 367.605 to 367.670. The Oregon Constitution Article IX, Section 3a and ORS 367.605 to 367.670 authorize the Department of Transportation to issue highway user-tax revenue bonds to provide proceeds for building and maintaining permanent public roads. Constitutionally dedicated fuel sales taxes and other taxes or fees charged for vehicle use and licensing secure highway user-tax bonds.

Oregon Transportation Infrastructure Fund Bonds – ORS 367.015 to 367.030. Under this program, the Department of Transportation may issue revenue bonds to provide infrastructure loans and assistance for transportation projects. The total principal amount of revenue bonds that may be issued and outstanding at any one time may not exceed \$200 million. Currently, no Transportation Infrastructure Fund bonds authorized by these provisions have been issued or are outstanding.

City and County Roads and Recreation Facilities Bonds – ORS 367.700 to 367.750. The Department of Transportation may issue bonds in the aggregate principal amount of \$50 million to provide funds to cities and counties for defraying the costs of street construction and the acquisition, development and maintenance parks and recreation facilities. This provision was enacted in 1975. No bonds have ever been issued for this program.

State Fair and Exposition Center Revenue Bonds – ORS Chapter 565.095. The Oregon State Fair may issue up to \$10 million in revenue bonds for the acquisition of land, capital construction and improvement and fair expenses. The bonds are payable solely from revenues derived from operations, appropriations, gifts or grants. There are no outstanding bonds under this authorization.

Lottery Revenue Bonds – ORS 286A.563 to 286A.585. The State may issue Lottery Bonds that are payable solely from revenues generated by the Oregon State Lottery, after the payment of prizes, administrative and some other expenses. The bonds are also secured by the State's promise to request appropriations to replenish the debt service reserve fund, if lottery revenues are insufficient to make the debt service payments. The Constitution requires the Legislative Assembly to appropriate Lottery net proceeds in amounts sufficient to pay lottery bonds before appropriating the Lottery's net proceeds for any other purpose. Lottery bonds may be issued to provide funds for education and economic development.

Oregon Bond Bank Revenue Bonds – ORS Chapter 285B. The State may issue bonds for two programs of the Oregon Economic and Community Development Department (OECDD). Under ORS 285B.410 to 285B.479 bonds may be issued to assist municipalities in financing the infrastructure necessary for economic development. Under ORS 285B.560 to 285B.599, bonds may be issued to finance loans to municipalities for safe drinking water projects and wastewater system improvement projects. The bonds are payable from loan repayments made by municipalities.

Forest Development Revenue Bonds – ORS 530.140. The State may issue revenue bonds in an amount not to exceed \$500,000 for the State Forestry Department. No bonds have been issued or are outstanding under this program.

Oregon Student Assistance Revenue Bonds – ORS 348.655. The 1987 Legislative Assembly authorized the issuance of up to \$30 million annually in revenue bonds to fund loans to support the “alternative student loan” program. To date, no debt has been issued under this authorization.

Single-Family and Multifamily Revenue Bonds – ORS 456.661 to 456.725. The State may issue revenue bonds for the Oregon Housing and Community Services Department to finance single-family mortgage loans and multifamily housing projects. By statute, the outstanding debt may not exceed \$2.5 billion. These bonds are fully self-supported by project rental revenues, mortgage payments and fees.

Conduit Revenue Bonds

The State has three authorized and active conduit or “pass-through” revenue bond programs that are described below. See Table 28 for bonds outstanding for active State conduit revenue bond programs.

Oregon Facilities Authority (OFA) – ORS Chapter 289. The Oregon Facilities Authority is a public corporation for whom the State may issue revenue bonds to make loans to non-profit entities in Oregon to finance the acquisition of lands and construction or reconstruction of facilities for health care, housing, educational and cultural uses.

Industrial & Economic Development Revenue Bonds – ORS Chapter 285B.320 to 285B.392. The State may issue Industrial and Economic Development Revenue Bonds for the Oregon Economic and Community Development Commission (OECDC) to finance loans to private businesses for expansions, relocations, retention, and other projects that will stimulate economic development and provide jobs in Oregon.

Housing Development Revenue Bonds – ORS 456.692. The State may issue conduit revenue bonds for its Housing Development Program. This program provides financing for multifamily developments in which a certain number of the housing units are for low-income persons and families.

TABLE 27
STATE OF OREGON
GENERAL OBLIGATION AND REVENUE BOND AND
CERTIFICATES OF PARTICIPATION
2007-09 BIENNIUM ISSUANCE LIMITS
As of February 13, 2009

| State Agency or Authority | Laws | Constitutional / Statutory | Bond Limits General Obligation |
|--|-------------|-----------------------------------|---|
| Department of Veterans' Affairs | HB 5005 | Article XI-A | \$ 100,000,000 |
| Department of Higher Education * | HB 5005 | Article XI-F(1) | 409,356,360 |
| | HB 5100 | | 200,000,000 |
| | SB 5562** | | 12,000,000 |
| Department of Higher Education * | HB 5005 | Article XI-G | 131,604,535 |
| | HB 5100 | | 3,500,000 |
| | SB 5562 | | 1,944,000 |
| Department of Community Colleges and Workforce Development * | HB 5005 | Article XI-G | 52,640,500 |
| | HB 5100 | | 4,000,000 |
| | SB 5562** | | 9,703,750 |
| Department of Environment Quality | HB 5005 | Article XI-H | 9,300,000 |
| Housing and Community Services Department | HB 5005 | Article XI-I(2) | 100,000,000 |
| Department of Energy | HB 5005 | Article XI-J | 150,000,000 |
| | SB 5562** | | <u>16,020,000</u> |
| Total General Obligation Bonds | | | \$1,200,069,145 |
| | | | Direct Revenue Bonds |
| Housing and Community Services Department | HB 5005 | ORS 456.661 | \$ 600,000,000 |
| Department of Transportation | | | |
| Highway Division | HB 5005 | ORS 367.025 | 813,725,000 |
| Transportation Infrastructure Bank | HB 5005 | ORS 367.030 | 50,000,000 |
| Economic & Community Development Department | HB 5005 | ORS 285B.473 | 200,000,000 |
| Department of Administrative Services Lottery | HB 5005 | Various | 485,725,000 |
| | SB 5562** | | <u>49,115,000</u> |
| Total Direct Revenue Bonds | | | \$2,198,565,000 |
| | | | Pass Through Revenue Bonds |
| Economic & Community Development Department | | | |
| Industrial Development Revenue Bonds | HB 5005 | ORS 285B.344 | \$ 400,000,000 |
| Oregon Facilities Authority | HB 5005 | ORS 289.200 | 500,000,000 |
| Housing and Community Services Department | HB 5005 | ORS 456.692 | <u>250,000,000</u> |
| Total Pass Through Revenue Bonds | | | \$1,150,000,000 |
| | | | Certificates of Participation and Other Financing Agreements |
| Department of Administrative Services * | HB 5005 | ORS 283.020- | \$271,595,000 |
| | HB 5100 | 092 | 113,075,000 |
| | SB 5562** | | <u>91,550,000</u> |
| Total Financing Agreements or Certificates of Participation (COPs) | | | \$476,220,000 |

Source: HB 5005, 74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session, the Oregon Constitution and Oregon Revised Statutes.

* House Bill 5100 enacted by Special Legislative Session on February 25, 2008.

** Senate Bill 5562 enacted by 2009 Legislative Assembly.

TABLE 28
STATE OF OREGON
OUTSTANDING LONG-TERM FINANCIAL OBLIGATIONS
AND CONSTITUTIONAL AND STATUTORY PROVISIONS
AS OF JUNE 30, 2008 ¹

| | Constitutional | Constitutional | Statutory | Amount | Authorization |
|---|--------------------------------------|-----------------------------------|------------------------|-------------------------|-----------------------------------|
| | Debt Limit | Debt Limit(\$)³ | Debt Limit (\$) | Outstanding (\$) | Remaining (\$)⁴ |
| <u>General Obligation Bonds</u> | <u>(as % RMV)²</u> | | | | |
| <i>General Fund Supported</i> | | | | | |
| Higher Ed. Facility (XI-G) Bonds ⁵ | 0.7500 | 3,758,644,876 | --- | 232,452,673 | |
| Community College Bonds | | | | 25,640,000 | 3,500,552,203 |
| Pollution Control Bonds ⁶ (85% of Total) | 0.5000 | 2,505,763,251 | 221,000,000 | 36,562,750 | 184,437,250 |
| Oregon Opportunity Bonds ⁷ | 0.5000 | 2,505,763,251 | 203,175,000 | 177,240,000 | 25,935,000 |
| Pension Obligation Bonds ⁸ | 1.0000 | 5,011,526,502 | --- | <u>788,367,000</u> | 1,116,013,071 |
| <i>Total General Fund Supported</i> | | | | <u>1,260,262,423</u> | |
| <i>Fully Self-Supporting</i> | | | | | |
| Veteran's Welfare Bonds ⁵ | 8.0000 | 40,092,212,012 | --- | 758,050,000 | 39,334,162,012 |
| Higher Ed. XI-F Bonds ⁵ | 0.7500 | 3,758,644,876 | --- | 838,650,002 | 2,919,994,875 |
| Pollution Control Bonds ⁶ (15% of Total) | 0.5000 | 2,505,763,251 | 39,000,000 | 6,452,250 | 32,547,750 |
| Elderly & Disabled Housing Bonds | 0.5000 | 2,505,763,251 | --- | 190,315,000 | 2,312,013,251 |
| Alternate Energy Project Bonds | 0.5000 | 2,505,763,251 | --- | 160,250,000 | 2,345,513,251 |
| Pension Obligation Bonds ⁸ | 1.0000 | 5,011,526,502 | --- | <u>1,286,283,000</u> | 1,820,863,431 |
| <i>Total Self-Supporting</i> | | | | <u>3,260,150,251</u> | |
| Total General Obligation Bonds | | | | <u>4,520,412,674</u> | |
| <i>Appropriation Credits</i> | | | | | |
| Certificates of Participation (COPs) | --- | --- | --- | 1,096,400,000 | |
| Oregon Appropriation Bonds | --- | --- | 431,560,000 | <u>332,290,000</u> | |
| Total Appropriation Credits | | | | <u>1,428,690,000</u> | |
| <i>Revenue Bonds</i> | | | | | |
| <i>Direct Revenue Bonds</i> | | | | | |
| Lottery Revenue Bond Program(s) | --- | --- | --- | 706,335,000 | |
| Transportation Infrastructure Bank | --- | --- | 200,000,000 | 0 | 200,000,000 |
| Highway User Tax | --- | --- | 2,400,000,000 | 1,395,780,000 | |
| Single & Multi-Family Housing Programs | --- | --- | 2,500,000,000 | 1,485,191,012 | 843,643,988 |
| Oregon Bond Bank –Economic Develop. | --- | --- | --- | <u>165,765,000</u> | |
| Total Direct Revenue Bonds | | | | <u>3,753,071,012</u> | |
| <i>Conduit Revenue Bonds</i> | | | | | |
| Industrial Revenue – Economic Develop. | --- | --- | --- | 412,774,102 | |
| Oregon Facilities Authority | --- | --- | --- | 1,046,927,136 | |
| Multi-family Housing Programs | --- | --- | --- | <u>206,999,786</u> | |
| Total Conduit Revenue Bonds | | | | <u>1,666,701,015</u> | |

Source: Debt Management Division, Office of the Oregon State Treasurer.

- (1) Excludes the impact, if any, of the issuance of obligations offered by this Official Statement. Does not include: Bond or Tax Anticipation Notes issued for less than 13 months, refunded and defeased bonds.
- (2) Percentages listed are of Real Market Value (RMV) of all taxable real property in the State.
- (3) Based on the January 1, 2007 Real Market Value (RMV) of \$501,152,650,155. Authorizations may not include inactive programs.
- (4) For those programs whose remaining debt authorization is determined by current outstanding debt.
- (5) Outstanding Department of Veterans' Affairs and State Board of Higher Education general obligation debt reflect the proceeds amount of original issue discount and deferred interest bonds.
- (6) While the amount of General Fund debt service support may vary over time, depending on a variety of factors such as which bonds are coming due, in this exhibit, Pollution Control Debt is reported at the 85% General Fund Supported and 15% Self-Supporting rates.
- (7) Authorized to finance capital construction at Oregon Health and Science University in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million. Authorized debt may not exceed ½ of 1% RMV of all taxable real property in the State. Bonds issued under this Article may not be paid from ad valorem taxes.
- (8) Approved by the voters September 16, 2003. 38% is assumed to be paid from the General Fund, and 62% is assumed to be paid from Non-General Fund sources. Pension Obligation Bonds may not be paid from ad valorem taxes.

TABLE 29
STATE OF OREGON
GENERAL OBLIGATION DEBT OUTSTANDING SUMMARY
(FISCAL YEAR, AS OF JUNE 30, 2008)

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Gross General Obligation Debt ¹ | \$4,295,965,754 | \$4,239,393,691 | \$4,235,512,717 | \$4,332,800,189 | \$4,520,412,674 |
| Revenue Supported GO Debt | \$3,098,274,661 | \$3,032,494,767 | \$3,021,357,174 | \$3,071,596,672 | 3,260,150,251 |
| Net GO Debt | \$1,197,691,093 | \$1,206,898,924 | \$1,214,155,543 | \$1,261,203,517 | 1,260,262,423 |
| Population ² | 3,582,600 | 3,631,440 | 3,690,500 | 3,745,500 | 3,798,000 |
| Gross Debt per Capita | \$1,119.12 | \$1,167.41 | \$1,147.68 | \$1,156.80 | \$1,190.21 |
| Net Debt per Capita | \$334.31 | \$332.35 | \$328.99 | \$336.73 | 331.82 |
| Real Market Value (RMV) | \$305,371,097,660 | \$330,248,718,696 | \$362,836,922,347 | \$434,319,218,596 | 501,152,650,155 |
| Gross Debt as Percent of RMV | 1.41% | 1.28% | 1.17% | 1.00% | 0.90% |
| Net Debt as Percent of RMV | 0.39% | 0.37% | 0.33% | 0.29% | 0.25% |
| Total Personal Income ³ | \$109,700,000,000 | \$114,700,000,000 | \$122,900,000,000 | \$130,400,000,000 | \$137,200,000,000 |
| Revenue Supported GO Debt as Percent of Total Personal Income | 2.82% | 2.64% | 2.46% | 2.36% | 2.38% |
| Net GO Debt as Percent of Total Personal Income | 1.09% | 1.05% | 0.99% | 0.97% | 0.92% |

Source: Debt Management Division, Office of the Oregon State Treasurer.

- (1) Excludes the impact of the issuance (if any) of the obligations offered by this Official Statement. Does not include notes issued for less than 13 months.
- (2) Population figures are as of July 1 each year. Sources: Oregon Department of Administrative Services Office of Economic Analysis, June 2008 Economic & Revenue Forecast Table C.3.
- (3) Total personal income includes all classes of income. Source: Oregon Department of Administrative Services, Office of Economic Analysis, June 2008 Economic & Revenue Forecast, Table A.1.

TABLE 30
STATE OF OREGON
AGGREGATE GENERAL OBLIGATION DEBT SERVICE ¹
(FISCAL YEAR, AS OF JUNE 30, 2008)

| <u>Year</u> | <u>Principal(\$)</u> | <u>Interest(\$)</u> | <u>Total(\$)</u> |
|-------------|----------------------|---------------------|--------------------|
| 2009 | \$ 115,084,584.85 | \$ 217,514,158.52 | \$ 332,598,743.37 |
| 2010 | 78,996,309.45 | 217,589,323.68 | 296,585,633.13 |
| 2011 | 88,832,686.75 | 214,571,175.30 | 303,403,862.05 |
| 2012 | 103,865,818.10 | 211,199,990.24 | 315,065,808.34 |
| 2013 | 110,657,360.25 | 207,622,681.36 | 318,280,041.61 |
| 2014 | 119,039,060.00 | 201,675,543.99 | 320,714,603.99 |
| 2015 | 128,881,440.30 | 193,742,194.17 | 322,623,634.47 |
| 2016 | 143,361,434.30 | 188,546,204.50 | 331,907,638.80 |
| 2017 | 247,450,162.15 | 182,422,367.48 | 429,872,529.63 |
| 2018 | 262,122,239.65 | 170,953,575.91 | 433,075,815.56 |
| 2019 | 278,503,074.25 | 157,980,628.73 | 436,483,702.98 |
| 2020 | 295,809,965.75 | 146,973,313.23 | 442,783,278.98 |
| 2021 | 221,788,352.10 | 132,042,494.87 | 353,830,846.97 |
| 2022 | 234,145,186.50 | 119,460,166.88 | 353,605,353.38 |
| 2023 | 253,035,000.00 | 105,492,969.04 | 358,527,969.04 |
| 2024 | 266,245,000.00 | 91,886,320.33 | 358,131,320.33 |
| 2025 | 280,925,000.00 | 77,219,457.24 | 358,144,457.24 |
| 2026 | 305,430,000.00 | 61,416,092.08 | 366,846,092.08 |
| 2027 | 331,760,000.00 | 44,185,276.52 | 375,945,276.52 |
| 2028 | 64,340,000.00 | 25,641,885.69 | 89,981,885.69 |
| 2029 | 58,150,000.00 | 22,855,663.15 | 81,005,663.15 |
| 2030 | 57,395,000.00 | 20,272,033.94 | 77,667,033.94 |
| 2031 | 53,835,000.00 | 17,828,108.82 | 71,663,108.82 |
| 2032 | 56,085,000.00 | 15,446,297.79 | 71,531,297.79 |
| 2033 | 46,795,000.00 | 13,239,448.33 | 60,034,448.33 |
| 2034 | 48,780,000.00 | 11,241,962.68 | 60,021,962.68 |
| 2035 | 44,155,000.00 | 9,313,282.13 | 53,468,282.13 |
| 2036 | 46,530,000.00 | 7,447,684.43 | 53,977,684.43 |
| 2037 | 40,255,000.00 | 5,694,516.69 | 45,949,516.69 |
| 2038 | 40,060,000.00 | 4,086,524.40 | 44,146,524.40 |
| 2039 | 36,360,000.00 | 2,581,144.25 | 38,941,144.25 |
| 2040 | 21,380,000.00 | 1,571,820.00 | 22,951,820.00 |
| 2041 | 15,780,000.00 | 1,042,436.25 | 16,822,436.25 |
| 2042 | 11,590,000.00 | 578,581.25 | 12,168,581.25 |
| 2043 | 5,055,000.00 | 247,781.25 | 5,302,781.25 |
| 2044 | 2,910,000.00 | 135,603.75 | 3,045,603.75 |
| 2045 | 2,975,000.00 | 86,413.75 | 3,061,413.75 |
| 2046 | 1,640,000.00 | 36,756.25 | 1,676,756.25 |
| 2047 | 200,000.00 | 17,100.00 | 217,100.00 |
| 2048 | 210,000.00 | 7,481.25 | 217,481.25 |
| Total | \$4,520,412,674.40 | \$3,101,866,460.12 | \$7,622,279,134.52 |

(1) Does not reflect the impact, if any, of the issuance of obligations offered by this Official Statement.

Source: Office of the State Treasurer.

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APPENDIX B

Basic Financial Statements
for the State of Oregon
for the Year Ended
June 30, 2008

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Oregon

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2008

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Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



Theodore R. Kulongoski
Governor

Scott L. Harra, Director
Department of Administrative Services

John J. Radford, Administrator
State Controller's Division

Report Prepared by:

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2008**

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Introductory Section



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

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January 23, 2009

To the Honorable Governor Theodore R. Kulongoski and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the fiscal year ended June 30, 2008. This report is published to fulfill the requirement for annual financial statements in Oregon Revised Statute 291.040.

This report consists of management's representations concerning the finances of the State of Oregon (State). Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework. The framework is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe the information presented is accurate in all material respects.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the fiscal year ended June 30, 2008. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2008 are fairly presented in accordance with GAAP. The audit report is the first component in the financial section of this report.

The audit of the financial statements is part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. This information, also prepared by the Audits Division, will be available in a separately issued report on or about February 28, 2009.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The State provides services to Oregon's citizens through a wide range of programs including education, human services, public safety, economic and community development, natural resources, transportation, consumer and business services, administrative support, legislative, and judicial programs. Oregon's primary government as reported in the accompanying financial statements consists of approximately 90 state agencies. Although legally separate, the Home Care Commission functions, in essence, as a program of the State and, therefore, it has been included as an integral part of the State's financial statements. In addition to the primary government, three entities are reported as discretely presented component units to emphasize that they are legally separate from the State. A more detailed discussion of the reporting entity can be found in Note 1 to the basic financial statements.

Oregon's Legislature adopts a budget on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. This biennial budget serves as the foundation for the State's financial

planning and control. Appropriation bills approved through the legislative process include one or more appropriations which may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels, depending on the Legislature's view of the activity. Legislative authority is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without legislative approval. The following budgeted appropriated funds account for the State's budgetary functions: General, Federal, Lottery, and Other. Additional information about the budget process and budgetary monitoring are presented in the notes to the required supplementary information.

Local Economy

Oregon is the least populous of the three west coast states that also include California and Washington. Oregon had almost 2 million of the three states' 23.8 million workers in August 2008. Oregon's largest metro area is the Portland-Vancouver-Beaverton metropolitan statistical area. The Portland area has the sixth largest number of workers of the seven metro areas with one million or more workers in the three states. It includes over half of Oregon's jobs.

Employment grew more rapidly in Oregon than in most neighboring states in the mid-1990s due largely to a combination of high net in-migration and a boom in high technology (primarily computer chips), transportation equipment (such as recreational vehicles and heavy trucks), and construction. The Asian financial crisis in 1997 led to weaker manufacturing employment and slower overall job growth in Oregon. When the national recession hit the State, between late 2000 and the middle of 2003, employment fell by as much as 4 percent, much worse than in neighboring states. From late 2003 to mid-2006, Oregon gained jobs at roughly 3 percent per year; then growth slowed markedly. The State lost nonfarm payroll jobs in seven of the first eleven months of 2008 and had a net loss of 31,900 jobs from one year earlier as of November 2008. Nine of the State's 11 major industries showed year-over-year job losses in November, eight of them with losses exceeding 2 percent. Along with the nation as a whole, Oregon has entered another recession.

During the rapid job growth of the mid-1990s, Oregon's unemployment rate ranked in the middle of all states and lower than its neighboring states, until the rate rose with the Asian financial crisis. During the economic boom of the late 1990s and in 2000, Oregon's unemployment rate remained above the rates in neighboring states. The nation and Oregon went into a recession after the burst of the information technology bubble. With the onset of that recession, Oregon's unemployment rate soared from just over 5 percent in late 2000 to a peak of 8.5 percent in the middle of 2003. The State's population continued to grow despite the high unemployment rate. Oregon had the nation's highest or second-highest state unemployment rate for 39 of the 40 months from May 2001 to August 2004. Rapid job growth from late 2003 to mid-2006 pulled the unemployment rate down to under 5.5 percent by early 2006. The rate declined further to a low of 5 percent in early 2007 but bounced back to around 5.5 percent by the end of the year. In the summer of 2008, it began rising rapidly in response to job losses in many industries. Between June and November 2008, the unemployment rate climbed from 5.5 percent to 8.1 percent.

Oregon's major foreign-export-related industries include computers and electronic products, transportation equipment, machinery, and agricultural crops. Oregon also ships large values of wood, food, nursery, machinery, plastic, and paper products to domestic markets and serves foreign and domestic tourists. Oregon's annual employment growth is expected to be flat in 2008, a negative 1.5 percent in 2009, and 0.8 percent in 2010. It should rise to 2.1 percent in 2011 and 2.4 percent in 2012 before slowing to 1.6 percent by 2015. The State should outpace the nation's growth rate from 2011 to 2015. Major-sector job growth over this period is expected to be fastest in professional and business services, construction, and leisure and hospitality. Nondurable manufacturing will post robust job gains, as will health care, private education, and some other service sectors as the State's population increases faster than the nation's. Manufacturing, as a whole, is projected to decline through 2010 with moderate growth from 2011 to 2015. Overall, employment should grow slightly faster than population during the 2011-2015 timeframe.

During fiscal year 2008, the State significantly increased its spending for education as compared to the prior fiscal year. However, as a percentage of total expenditures, the amount devoted to education was only 0.4 percent higher than it was 10 years ago. In addition, governmental expenditures for capital outlay and administration as a percentage of total expenditures decreased 2.3 percent and 2.6 percent, respectively, as compared to 10 years ago. The relatively small percentage increase in expenditures for education, combined with the percentage decreases in expenditures for capital outlay and administration, reflects a shift in the

allocation of total expenditures to other program areas, such as public safety and debt service. General governmental expenditures related to debt service have increased as the State expands its use of low-cost capital financing; the percentage of total expenditures is 2.4 percent higher than it was ten years ago.

During this same ten-year period, tax revenues, while increasing in amount, have actually decreased as a percentage of total revenues (a ten-year decrease of 2.6 percent). The reason for this decline is the relative increase in general governmental expenditures for services that are supported more by federal revenues than by taxes (e.g., human services). As a percentage of total revenues, federal revenues are 2 percent higher than they were ten years ago, reflecting increased participation in federal assistance programs that benefit Oregon's citizens.

Long-term Financial Planning

The 2007-09 legislatively adopted budget reflects substantial increases in highway construction programs and other transportation infrastructure. The budget includes \$400 million in other funds for bridge construction and \$56.3 million for a one-time distribution to counties out of the State share of State Highway Funds for county road maintenance and improvements. The Legislature also approved the sale of \$250 million of lottery bonds for the Southeast Portland Light Rail Project and another \$100 million for Connect Oregon, a multi-modal transportation initiative to expand the State's investment in key non-highway facilities, including public transit and air, rail, and marine transportation infrastructure.

Other major projects funded in the 2007-09 budget include \$561.3 million of capital construction and deferred maintenance projects for the Oregon University System and an additional \$80.1 million in similar projects for local community colleges. The Legislature also approved a project to begin replacing the current Oregon State Hospital with two new facilities. For the 2007-09 biennium, \$89 million were budgeted for land acquisition, design and planning, infrastructure, site improvements, and design of systems needed for the operation of these mental health facilities. The 2009-11 budget is expected to include additional funding for the construction of the facility.

During the February 2008 special session, the Legislature approved a number of capital construction projects using bond proceeds. The largest of these projects includes authorization to issue \$200 million in general obligation bonds for the construction of a new arena for the University of Oregon. The University will pay debt service from Athletic Department revenues.

State law provides that if actual General Fund revenues at the close of the Legislative session exceed forecasted revenues by two percent or more, the excess revenues shall be refunded to taxpayers. Excess revenues collected during the 2005-07 biennium resulted in personal income tax refunds of \$1.1 billion during fiscal year 2008. While the beginning balance for the 2007-09 biennium was \$1.4 billion, only \$352.5 million was actually available after the tax refunds were paid.

The December 2008 revenue forecast projects \$13.8 billion of General Fund revenues for the 2007-09 biennium, a significant decline since the September 2008 forecast. Including the remaining \$352.5 million of resources from the prior biennium, total available General Fund resources are projected to be \$14.2 billion for the 2007-09 biennium. Given current budgeted expenditures (including transfers to the Oregon Rainy Day Fund) of \$14.3 billion, the projected General Fund ending balance for the 2007-09 biennium is a deficit of \$142.1 million. Expenditure reductions will be implemented over the next several months. General Fund resources are forecasted to increase by 6.8 percent in the 2009-11 biennium and 15 percent in the 2011-13 biennium.

Relevant Financial Policies

During the 2007 legislative session, the Legislature established the Oregon Rainy Day Fund to begin setting aside resources that could be used to assist the State during difficult economic times. Resources in the Oregon Rainy Day Fund can be appropriated by the Legislature only when certain criteria related to economic or revenue conditions have been met. Based on requirements in the law that established this fund, \$319.3 million was transferred from the General Fund to the Oregon Rainy Day Fund in September of 2007. The balance is expected to be \$340.5 million by the end of the 2007-09 biennium.

Major Initiatives

As noted above in *Long-term Financial Planning*, the State is making significant capital investments in transportation infrastructure and higher education that should contribute to the long-term growth of Oregon's economy. During the 2007-09 biennium, the State plans to increase its investment in the education program area, boosting spending for pre-kindergarten, K-12, community colleges, and higher education by almost \$1.3 billion, or 18 percent over the prior biennium. The total General Fund and Lottery Funds budget for education is \$8.2 billion.

Certificates of participation authorized during the 2008 special session will provide up to \$76 million for the Oregon Wireless Interoperability Network (OWIN) project. This project is intended to provide a single emergency response wireless communication infrastructure that supports both the communications needs of all state agencies and ensures communications interoperability among all state, local, tribal and federal public safety agencies. It will also meet the Federal Communications Commission mandates for the conversion of public safety communication frequencies and spectrum allocation by 2013. This funding will support the first of four planned construction phases. The initial stage of this project is expected to be completed during the 2007-09 biennium and the first few months of the 2009-11 biennium.

The 2007-09 budget also includes incentives to increase the production and use of renewable energy and alternative fuels. This is expected to produce long-term environmental and economic benefits and establish Oregon as a national leader in this arena. The initiative includes funding to develop commercial wave energy, as well as funding for a new research center, BioEconomy and Sustainable Technologies Institute, to support bio-fuels and bio-products research. It also funds several incentives to stimulate renewable energy production and use, including biomass and bio-fuels.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This was the sixteenth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally responsible manner. Without the participation and cooperation of the agencies' fiscal units, the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of Economic Analysis, the Budget and Management Division, the Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John J. Radford". The signature is stylized with a large, looped "J" and a cursive "R".

John J. Radford, Administrator
State Controller's Division
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



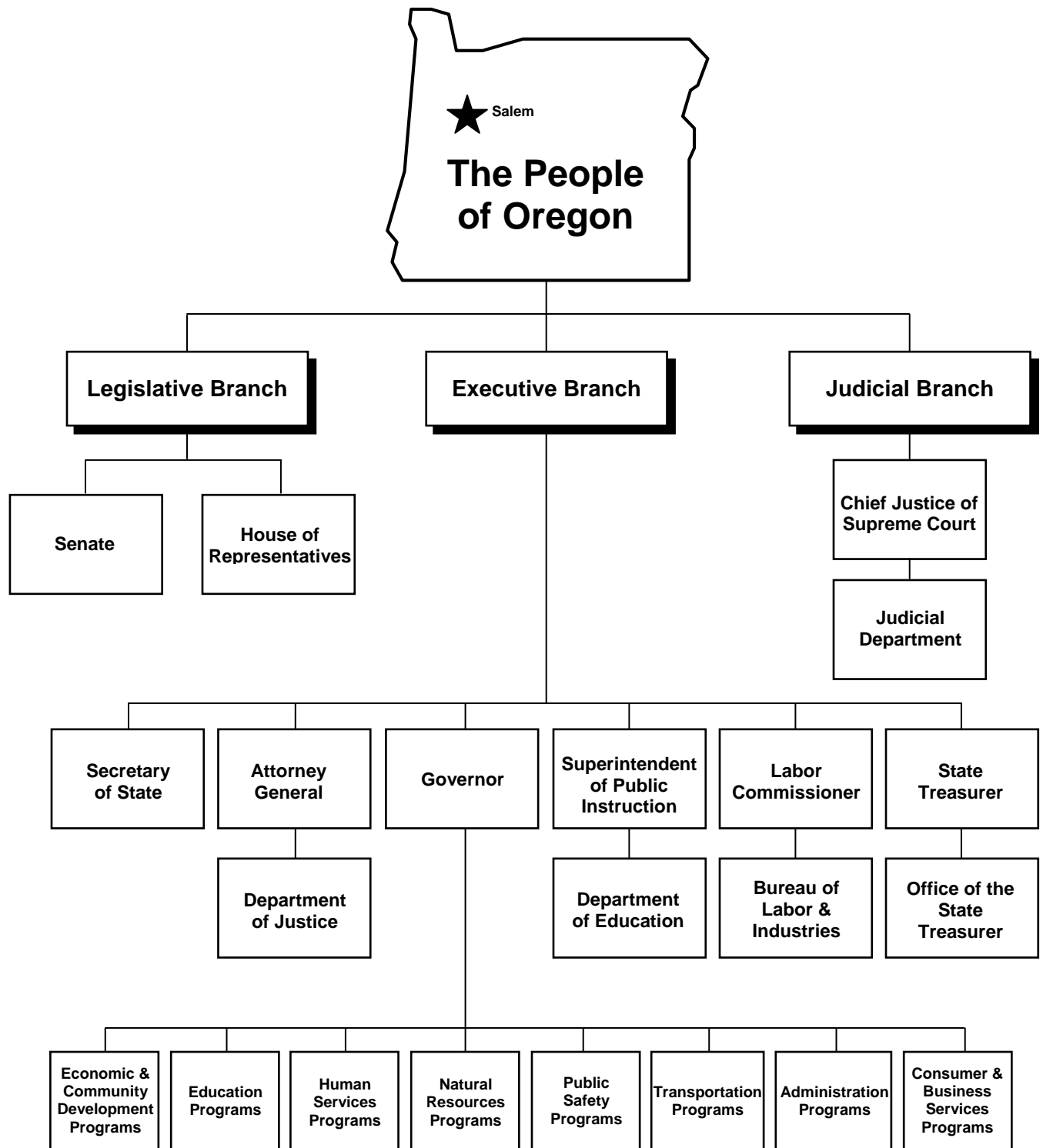
A handwritten signature in black ink, appearing to read "M. L. R.", is positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", is positioned above the title "Executive Director".

Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials



EXECUTIVE

Theodore R. Kulongoski, Governor

Kate Brown, Secretary of State

Ben Westlund, State Treasurer

John R. Kroger, Attorney General

Brad Avakian, Commissioner, Labor and Industries

Susan Castillo, Superintendent of Public Instruction

LEGISLATIVE

Peter Courtney, Senate President

Dave Hunt, Speaker of the House of Representatives

JUDICIAL

Paul J. DeMuniz, Chief Justice of the Supreme Court

“To Serve Our Public Well”

Mission of Oregon State Service



Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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The Honorable Theodore R. Kulongoski
Governor of Oregon

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2008, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. We also did not audit the financial statements of the University System or the Veterans' Loan Fund, which represent 42 percent and 35 percent, respectively, of the assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, the University System, and the Veterans' Loan Fund, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Oregon University System Foundations, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. As part of our audit, we performed audit procedures related to the Common School Fund, a major governmental fund. The State Land Board was created to manage lands dedicated to the Common School Fund with the objective of obtaining the greatest benefit for the people of Oregon. The Oregon Constitution designates the Secretary of State as both a member of the State Land Board and Auditor of Public Accounts. To minimize this impairment, auditors who did not have any known personal impairments in relation to the Common School Fund performed the audit. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2008, and the

respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, on July 1, 2007, the State of Oregon adopted Governmental Accounting Board (GASB) Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and disclosure of OPEB expenditures and related liabilities.

As discussed in Note 23 to the financial statements, the comparability of the financial statements with those of preceding periods is affected by the PERS change in policy related to its definition of cash equivalents and other accounting matters related to derivatives and short sale of securities.

In accordance with *Government Auditing Standards*, we also issue a separate report on our consideration of the State of Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 21, budgetary comparison information on pages 120 through 126, and the schedule of funding progress on page 127 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The introductory section, combining fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Kate Brown", is written over the printed name and title.

Kate Brown
Secretary of State

January 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report presents a discussion and analysis of the State of Oregon's (State) financial performance during the fiscal year ended June 30, 2008. The discussion and analysis is intended to serve as an introduction to the State's basic financial statements and is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented in this analysis in conjunction with the transmittal letter beginning on page 2 of this report.

FINANCIAL HIGHLIGHTS

- On June 30, 2008, the assets of the State exceeded its liabilities by \$15.1 billion (net assets). Of this amount, \$1.6 billion is unrestricted net assets, while \$4.1 billion is restricted for specific uses.
- The State's total net assets decreased by \$161.9 million as a result of fiscal year 2008 operations. The net assets for governmental activities decreased by 3.8 percent of total governmental activities net assets, while the net assets for business-type activities increased by 5.6 percent of total business-type net assets.
- On June 30, 2008, the State's governmental funds reported combined ending fund balances of \$4.9 billion. Of this amount, 71.5 percent is available for spending at the State's discretion (unreserved, undesignated fund balance).
- At fiscal year end, unreserved fund balance for the General Fund was \$1.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements*, *required supplementary information*, and an optional presentation of *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* is presented following the combining financial statements. The basic financial statements contain three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the State's finances in a manner similar to a private-sector business. All of the State's activities are reported in the government-wide statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the State's own programs.

- The *statement of net assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets.
- The *statement of activities* presents information that shows how the State's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

These two government-wide financial statements report the State's net assets and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the State's financial health, or financial position. Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether its financial position is improving or deteriorating. However, to assess the overall health of the State, the reader needs to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The government-wide financial statements of the State are divided into the following three categories:

1. *Governmental activities.* This includes the basic services provided by the State to its citizens, such as K-12 schools and community colleges, public assistance programs, public safety, and public transportation. Income taxes and federal grants finance most of these activities. The State's internal service funds, which provide services to other departments or state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.
2. *Business-type activities.* The State charges fees to customers to help cover the costs of certain services it provides. For example, the State administers loan programs to provide housing to citizens with low incomes and those who are elderly or disabled. Other operations reported under business-type activities include the State's lottery and the Oregon University System, which consists of seven higher education facilities.
3. *Component units.* The State includes three other entities in its report: the SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations. Although legally separate, these entities are reported as "component units" either because the State is financially accountable for them or because of the nature and significance of their relationship to the State. Financial information for these three component units is reported separately from the financial information of the State (primary government). Another component unit, the Home Care Commission, is reported as part of the primary government, even though it is legally separate from the State, because it functions, in essence, as a State program.

The government-wide financial statements can be found on pages 24-27 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (not the State as a whole). Funds are accounting mechanisms the State uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the State uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. Some funds are required by state law (such as the Lottery Operations Fund) or by bond covenants. The State establishes other funds to control and manage money for particular purposes, such as health and social services, or to show that the State is properly using certain taxes and grants, such as gas taxes for transportation.

All of the State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that are readily convertible to cash flow in and out, and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the State's programs. Because this information does not encompass the long-term focus of the government-wide statements, information is provided following the governmental fund statements that reconciles the government-wide focus to the governmental fund focus.

The State maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund financial statements for the six major governmental funds, including the general fund, while information for the fifteen nonmajor governmental funds is aggregated and presented in a single column. Individual fund data for each nonmajor governmental fund can be found in the combining statements presented elsewhere in the report. The basic governmental fund financial statements appear on pages 28-35 of this report.

Proprietary funds. Services for which the State charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Like the government-wide statements, the proprietary fund statements provide both long-term and short-term financial information. The State's enterprise funds (one type of proprietary fund) are the same as its business-type activities. However, the enterprise funds present more detail, including cash flow information. Internal service funds (the other type of proprietary fund) are used to

report activities that provide services to the State's other programs and activities (such as the State's Central Services Fund).

The proprietary fund financial statements report separate information for the State's five major proprietary funds. Data for the nine nonmajor proprietary funds are aggregated and presented in a single column. All internal service funds are also aggregated into a single column presentation in the proprietary fund financial statements. Individual fund data for each nonmajor proprietary fund and each internal service fund can be found in the combining statements presented elsewhere in the report. The basic proprietary fund financial statements appear on pages 36-45 of this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The State is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that due to a trust arrangement may be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities have been excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

The basic fiduciary fund financial statements include the private purpose trust fund, the investment trust fund, the agency fund, and aggregated data for the State's pension and other employee benefit trust funds. Individual fund data for each of the pension and other employee benefit trust funds can be found in the combining statements presented elsewhere in this report. The basic fiduciary fund financial statements appear on pages 46-47 of this report.

Discretely Presented Component Units

Combining statements that report the activities of the State's discretely presented component units, the SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations, can be found on pages 49-51 of this report. While aggregated data are presented in the government-wide statements, the combining statements provide individual detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include notes, which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 53-116 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a section of *required supplementary information* (RSI), beginning on page 117, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds, as well as accompanying notes to the RSI. This section also includes a Schedule of Funding Progress for Other Postemployment Benefit Plans and accompanying notes.

The combining financial statements referred to earlier are presented immediately following the RSI, beginning on page 129 of this report. The combining statements provide details about the nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, which are otherwise aggregated for presentation purposes in the related basic financial statements. The combining financial statements also provide details for the State's pension and other employee benefit trust funds, which are aggregated and presented in a single column in the basic fiduciary financial statements.

A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as demographic, economic, and operating information, is presented immediately following the combining statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State's *combined* net assets for fiscal year 2008 were approximately \$15.1 billion as shown in Table 1. Most of this balance consists of capital assets, with infrastructure being the largest component. Because the State uses its capital assets to provide services to citizens, the amount of net assets invested in

capital assets, net of related debt, is not available for future spending. An additional portion of the State's net assets (27.3 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is \$1.6 billion.

Table 1
State of Oregon's Net Assets
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|--------------------|-----------------------------|-------------------|--------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 10,596.4 | \$ 11,819.7 | \$ 8,438.8 | \$ 7,750.6 | \$ 19,035.2 | \$ 19,570.3 |
| Capital assets | 10,057.7 | 10,553.2 | 1,734.4 | 1,596.6 | 11,792.1 | 12,149.8 |
| Total assets | 20,654.1 | 22,372.9 | 10,173.2 | 9,347.2 | 30,827.3 | 31,720.1 |
| Long-term liabilities | 6,574.4 | 6,693.1 | 4,029.8 | 3,761.1 | 10,604.2 | 10,454.2 |
| Other liabilities | 3,620.3 | 4,806.6 | 1,501.1 | 1,190.1 | 5,121.4 | 5,996.7 |
| Total liabilities | 10,194.7 | 11,499.7 | 5,530.9 | 4,951.2 | 15,725.6 | 16,450.9 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 8,554.1 | 8,696.8 | 808.0 | 756.8 | 9,362.1 | 9,453.6 |
| Restricted | 950.5 | 1,098.8 | 3,177.4 | 2,998.2 | 4,127.9 | 4,097.0 |
| Unrestricted | 954.8 | 1,077.6 | 656.9 | 641.0 | 1,611.7 | 1,718.6 |
| Total net assets | \$ 10,459.4 | \$ 10,873.2 | \$ 4,642.3 | \$ 4,396.0 | \$ 15,101.7 | \$ 15,269.2 |

Changes in net assets. The State's *combined* change in net assets as the result of current year operations was a decrease of \$161.9 million as shown in Table 2. Net assets of governmental activities decreased by 3.8 percent of total governmental activities net assets, while net assets of business-type activities increased by 5.6 percent of total business-type activities net assets.

Total ending net assets of governmental activities for fiscal year 2008 were \$10.5 billion, down from \$10.9 billion reported for fiscal year 2007. Although personal income tax revenue was higher than the prior year, significant increases in program expenses, particularly in the areas of education, human services and transportation, resulted in a decrease in governmental activities net assets. Income tax revenue reported in fiscal year 2007 was lower due to recognition of the liability for income tax kicker refunds and credits of \$1.1 billion.

For business-type activities, ending net assets were \$4.6 billion, up from \$4.4 billion reported for fiscal year 2007. A large transfer from the General Fund to the University System Fund contributed significantly to this increase. In the Unemployment Compensation Fund, employer-employee assessments and other operating revenues exceeded distributions of unemployment benefits during the fiscal year. The Lottery Operations Fund also saw a significant increase in net assets due to strong investment earnings.

Table 2
State of Oregon's Changes in Net Assets
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|-------------------|-----------------------------|-------------------|--------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,462.1 | \$ 1,329.0 | \$ 3,441.9 | \$ 3,365.0 | \$ 4,904.0 | \$ 4,694.0 |
| Operating grants & contributions | 5,162.5 | 5,097.0 | 664.2 | 892.0 | 5,826.7 | 5,989.0 |
| Capital grants & contributions | 27.6 | 21.7 | - | - | 27.6 | 21.7 |
| General revenues: | | | | | | |
| Personal income taxes | 6,102.9 | 4,486.1 | - | - | 6,102.9 | 4,486.1 |
| Corporate income taxes | 448.0 | 518.3 | - | - | 448.0 | 518.3 |
| Other taxes | 1,751.1 | 1,734.9 | 16.1 | 15.2 | 1,767.2 | 1,750.1 |
| Unrestricted investment earnings | 81.8 | 90.2 | - | - | 81.8 | 90.2 |
| Total revenues | 15,036.0 | 13,277.2 | 4,122.2 | 4,272.2 | 19,158.2 | 17,549.4 |
| Expenses: | | | | | | |
| Education | 4,175.0 | 3,761.8 | - | - | 4,175.0 | 3,761.8 |
| Human services | 5,316.5 | 4,814.9 | - | - | 5,316.5 | 4,814.9 |
| Public safety | 1,184.0 | 1,023.2 | - | - | 1,184.0 | 1,023.2 |
| Economic & community development | 355.1 | 335.1 | - | - | 355.1 | 335.1 |
| Natural resources | 613.3 | 580.8 | - | - | 613.3 | 580.8 |
| Transportation | 2,251.4 | 1,709.8 | - | - | 2,251.4 | 1,709.8 |
| Consumer and business services | 461.0 | 340.3 | - | - | 461.0 | 340.3 |
| Administration | 570.9 | 467.9 | - | - | 570.9 | 467.9 |
| Legislative | 39.1 | 36.7 | - | - | 39.1 | 36.7 |
| Judicial | 311.8 | 286.5 | - | - | 311.8 | 286.5 |
| Interest on long-term debt | 315.5 | 265.1 | - | - | 315.5 | 265.1 |
| Housing and community services | - | - | 100.7 | 98.7 | 100.7 | 98.7 |
| Veterans' loan | - | - | 46.7 | 53.3 | 46.7 | 53.3 |
| Lottery operations | - | - | 573.2 | 564.1 | 573.2 | 564.1 |
| Unemployment compensation | - | - | 687.4 | 547.0 | 687.4 | 547.0 |
| University system | - | - | 1,808.4 | 1,893.2 | 1,808.4 | 1,893.2 |
| State hospitals | - | - | 203.8 | 184.5 | 203.8 | 184.5 |
| Liquor control | - | - | 307.4 | 284.3 | 307.4 | 284.3 |
| Other business-type activities | - | - | 75.1 | 76.9 | 75.1 | 76.9 |
| Total expenses | 15,593.6 | 13,622.1 | 3,802.7 | 3,702.0 | 19,396.3 | 17,324.1 |
| Increase (decrease) before contributions, special and extraordinary items, and transfers | (557.6) | (344.9) | 319.5 | 570.2 | (238.1) | 225.3 |
| Contributions to permanent funds | - | 4.2 | - | - | - | 4.2 |
| Capital contributions | 4.5 | 2.9 | 71.7 | 3.6 | 76.2 | 6.5 |
| Additions to permanent endowments | - | - | - | 0.1 | - | 0.1 |
| Transfers | 154.5 | 214.6 | (154.5) | (214.6) | - | - |
| Increase (decrease) in net assets | (398.6) | (123.2) | 236.7 | 359.3 | (161.9) | 236.1 |
| Net assets – beginning | 10,873.2 | 11,039.2 | 4,396.0 | 4,036.5 | 15,269.2 | 15,075.7 |
| Prior period adjustments | (15.2) | (42.8) | 9.6 | 0.2 | (5.6) | (42.6) |
| Net assets – beginning – as restated | 10,858.0 | 10,996.4 | 4,405.6 | 4,036.7 | 15,263.6 | 15,033.1 |
| Net assets – ending | \$10,459.4 | \$10,873.2 | \$ 4,642.3 | \$ 4,396.0 | \$ 15,101.7 | \$15,269.2 |

Figure 1 below illustrates fiscal year 2008 revenues of the State as a whole, by source. Approximately 30.3 percent of total revenue comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 34.1 percent comes from personal and corporate income taxes and 25.5 percent comes from charges for services provided.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2008

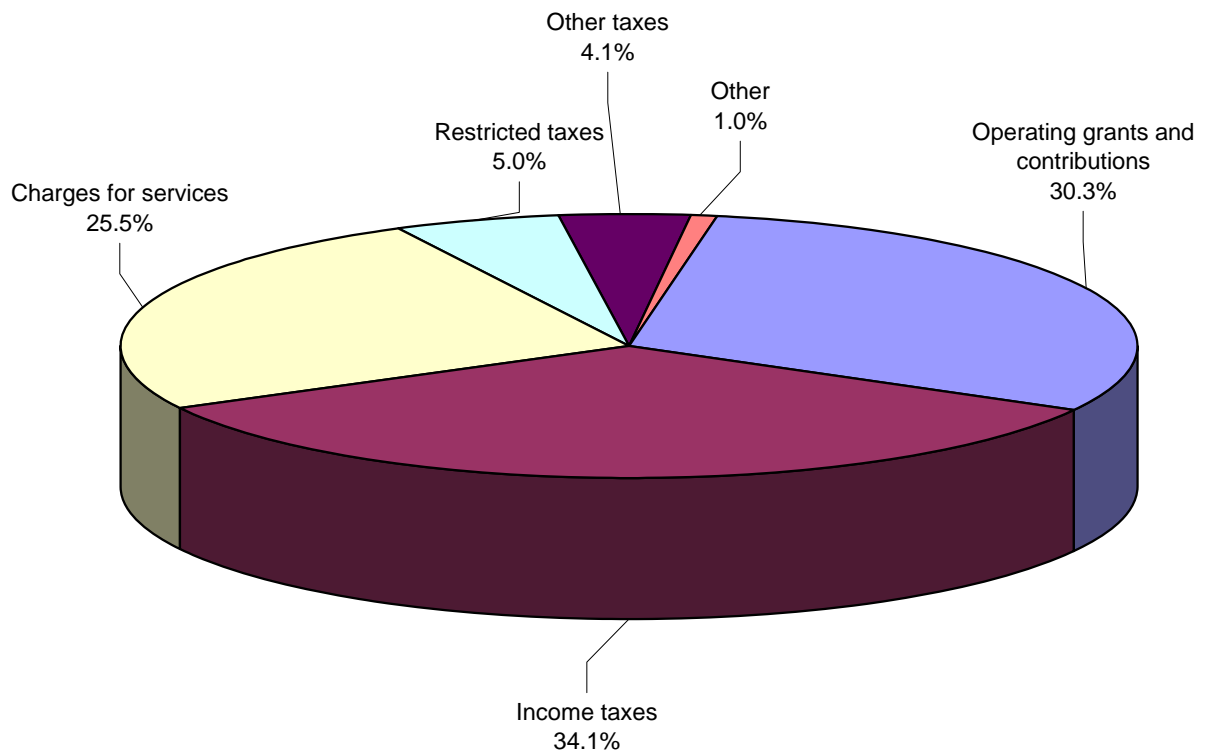
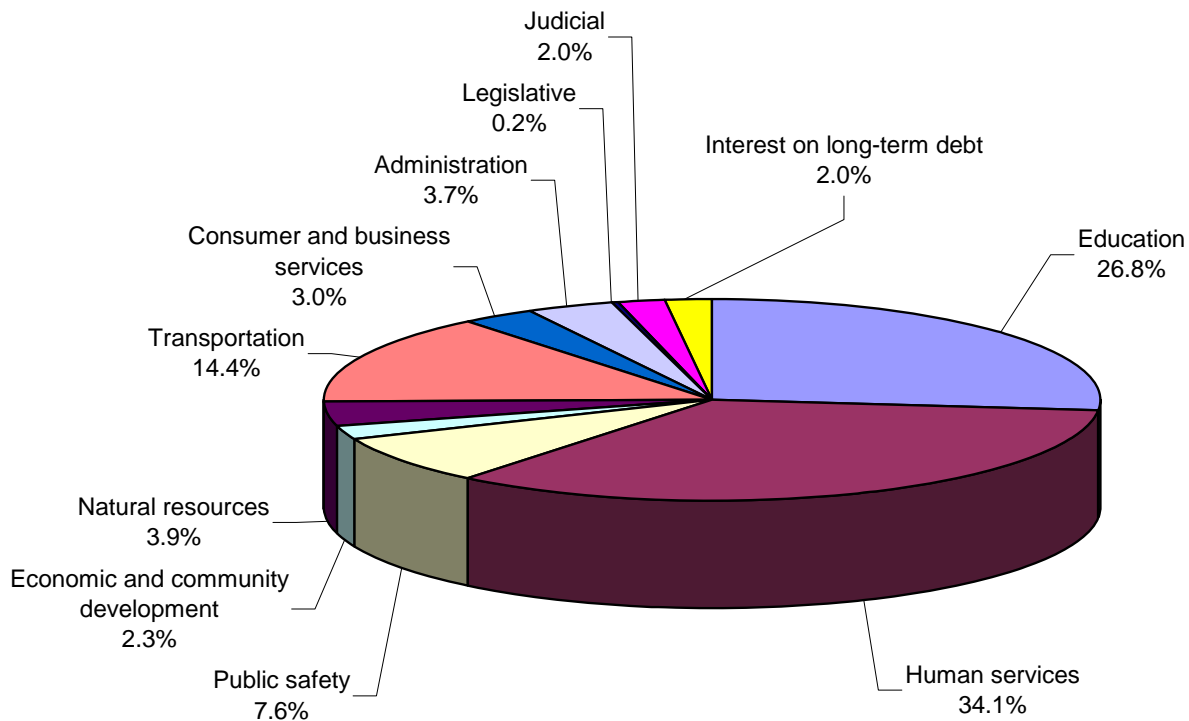


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest portion of expenses is for human services to provide for Oregon's citizens in need of assistance at 34.1 percent, with elementary and secondary education the second largest at 26.8 percent of total governmental activity expenses.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2008



FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State of Oregon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2008, approximately 71.5 percent of the total fund balance of governmental funds represents unreserved, undesignated fund balance, which is available for spending on governmental programs at the State's discretion. The remainder of fund balance is reserved, meaning it is not available for new spending because it has already been committed, for example, to pay debt service or claims and judgments.

For fiscal year 2008, the State's governmental funds reported combined ending fund balances of \$4.9 billion, the same combined total reported at the end of fiscal year 2007. Although combined ending fund balances did not change year over year, several governmental funds experienced significant changes in their individual fund balances as the result of fiscal year 2008 operations.

In the General Fund, which is the operating fund of the State, ending fund balance for fiscal year 2008 was up \$20 million over the prior year. General Fund operating revenues increased by \$1.5 billion, or 27.4 percent, due primarily to a 34.3 percent increase in personal income taxes. Expenditures as a percentage of operating revenues were down from 98 percent in 2007 to 90 percent in 2008; the excess revenues generated in fiscal

year 2008 were offset by transfers to other funds, including \$428.2 million to the University System Fund. Because fiscal year 2008 was the first year of the State's two year budget cycle, a large percentage of the General Fund's ending fund balance was encumbered (reserved) for expenditures expected to occur in fiscal year 2009. As a result, the General Fund's unreserved, undesignated fund balance decreased by \$112.5 million as compared to fiscal year 2007.

The Health and Social Services Fund saw an increase in fund balance of \$204.4 million, largely due to a 7.6 percent increase in federal funding. In the Public Transportation Fund, \$10.1 million of long-term debt was issued in fiscal year 2008, compared to \$655.1 million in fiscal year 2007. While the level of revenues and expenditures remained relatively constant, this reduction in other financing sources contributed significantly to the \$247.6 million decrease in the fund balance of the Public Transportation Fund. An investment loss of \$116 million in fiscal year 2008, versus investment income of \$165.1 million in fiscal year 2007, was the primary reason for the \$172.7 million decrease in the fund balance of the Common School Fund.

Proprietary funds. The State's enterprise funds provide the same type of information presented for business-type activities in the government-wide financial statements, but in greater detail. Housing and Community Services finances home ownership and multi-family units for elderly, disabled, and lower to moderate income persons through the issuance of bonds. For fiscal year 2008, the fund experienced a \$14.7 million increase in total net assets due to operating income of \$10.1 million and transfers from other funds of \$4.6 million. The Veterans' Loan Program provides home purchase and home improvement loans at favorable interest rates to eligible veterans. Although both revenues and expenditures were down from the prior year, net assets of the Veterans' Loan Fund increased by 6.9 percent due to operating income of \$8.4 million.

Net assets of the Lottery Operations Fund increased by \$30.3 million, or 16.9 percent; operating income saw a modest increase of 2.7 percent, while investment income increased 15.1 percent over the prior year. In the Unemployment Compensation Fund, employer-employee assessments and other operating revenues exceeded distribution of benefits during the fiscal year, with investment income up 27.3 percent. The University System Fund saw a 37.5 percent reduction in federal revenues, coupled with a 34.6 percent decline in gifts and grants that resulted in an operating loss of \$559.5 million for fiscal year 2008. However, the reductions in operating revenues were more than offset by capital contributions of \$71.7 million and transfers from other funds, including a transfer of \$428.2 million from the General Fund, which together increased ending net assets by \$80.5 million.

Restrictions and commitments significantly affect the availability of Housing and Community Services Fund resources for future use. For example, net assets that will be used to repay outstanding bonds are restricted for debt service. A significant portion of University System Fund net assets are restricted for capital construction, higher education, debt service, and for purposes stipulated by donors of resources.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension and Other Employee Benefit Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members and beneficiaries of the Public Employees Retirement System, decreased by \$4.6 billion, or 7 percent. The net depreciation in fair value of investments was the primary factor contributing to this decrease. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State budgets on a biennial basis rather than an annual basis. Final amounts reflect the Legislatively Approved Budget as of June 30, 2008 for the 2007-2009 biennium. Final budgeted expenditures for the General Fund were \$5.7 million less than original budgeted amounts, while forecasted revenues for the General Fund increased by \$32.8 million. Although the increase in personal income taxes was largely offset by a decrease in corporate income taxes, the forecast for other taxes and investment income was higher than original projections.

During the 2008 special session, the Legislature approved a \$20 million decrease in General Fund budgeted expenditures in the education program area that was offset by a transfer of \$20 million of unallocated lottery funds for education. The net result was no change in the level of education appropriations, but an increase to the General Fund's ending balance. The Legislature also reduced the General Fund budget for human resources by \$21.5 million and replaced this funding with two Emergency Board special purpose

appropriations, totaling \$22.4 million, to meet future needs related to increased caseloads and costs per case, start-up costs of the new Medicaid management information system, and the Oregon State Hospital improvement plan. The increase in General Fund budgeted expenditures for the legislative program area reflects these two special purpose appropriations. Another area that saw significant change was the natural resources program. General Fund budgeted expenditures increased \$8.9 million, with nearly \$5 million to be used for processing landowners' compensation claims of lost value under Ballot Measure 49.

Because of Oregon's biennial process, budget to actual comparisons are not final until the second year of the biennium. For the first year of the 2007-2009 biennium, actual expenditures and other financing uses in the General Fund exceeded actual revenues and other financing sources by \$1.6 million. During fiscal year 2008, actual personal income tax collections were down \$806.1 million compared to actual amounts collected in fiscal year 2007. Actual transfers to other funds during fiscal year 2008 were 86.5 percent of the total amount budgeted for the entire biennium. To manage the differences in the timing of cash flows, the State issued \$741.2 million of tax anticipation notes on July 1, 2008. These notes will be repaid with income tax revenue prior to the end of the biennium.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises 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 State's debt credit rating, which is an indication of the State's ability to repay its debt, was upgraded during the fiscal year to AA by Fitch and Standard & Poor's and to Aa2 by Moody's.

Debt outstanding for the years ended June 30, 2008 and 2007 is summarized in Table 3 below. For governmental activities, new revenue bonds were issued in fiscal year 2008 to fund community projects and public works, grants to local school districts, transportation infrastructure improvement projects, residential assistance for low income families, and capital improvements for higher education. The majority of new revenue bonds issued for business-type activities in fiscal year 2008 were single-family mortgage revenue bonds and homeowner revenue bonds.

During the fiscal year, the majority of new general obligation bonds were issued to finance acquisition and construction of new higher education facilities, including \$200 million earmarked for construction of the University of Oregon sports arena. In addition, new general obligation bonds were issued to provide housing loans for veterans. New certificates of participation were issued to finance the implementation of the new Medicaid management information system, the initial costs of replacing the current Oregon State Hospital with two new facilities, and renovation of the State Capitol. In addition, the State refinanced some of its existing debt to take advantage of favorable interest rates. Additional information on the State's long-term debt may be found in Note 9 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2008 and 2007
(dollars in millions)

| | 2008 | 2007 | 2008 Over (Under) 2007 | |
|-------------------------------|-------------------|-------------------|------------------------|-------------|
| | | | Amount | Percent |
| General obligation bonds | \$ 4,596.6 | \$ 4,400.1 | \$ 196.5 | 4.5% |
| Revenue bonds | 3,802.0 | 3,770.4 | 31.6 | 0.8% |
| Certificates of participation | 1,120.1 | 1,131.3 | (11.2) | -1.0% |
| General appropriation bonds | 351.9 | 383.7 | (31.8) | -8.3% |
| Total | \$ 9,870.6 | \$ 9,685.5 | \$ 185.1 | 1.9% |

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, was \$11.8 billion (net of accumulated depreciation) as summarized in Table 4. Capital assets include land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and historical treasures. The State's investment in capital assets for fiscal year 2008 decreased by \$232.9 million, or 1.9 percent, as construction in progress failed to keep pace with completed projects.

Table 4
State of Oregon's Capital Assets, Net of Depreciation
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|----------------------------|--------------------|-----------------------------|-------------------|--------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Land | \$ 1,691.3 | \$ 1,663.5 | \$ 106.5 | \$ 89.9 | \$ 1,797.8 | \$ 1,753.4 |
| Buildings, property and equipment | 1,608.3 | 1,391.7 | 1,385.4 | 1,336.1 | 2,993.7 | 2,727.8 |
| Construction in progress | 694.9 | 2,433.8 | 164.7 | 94.9 | 859.6 | 2,528.7 |
| Infrastructure | 6,062.0 | 4,938.4 | 16.5 | 16.4 | 6,078.5 | 4,954.8 |
| Works of art and historical treasures | 1.2 | 1.0 | 61.3 | 59.3 | 62.5 | 60.3 |
| Total | \$ 10,057.7 | \$ 10,428.4 | \$ 1,734.4 | \$ 1,596.6 | \$ 11,792.1 | \$ 12,025.0 |

Major capital asset events during the fiscal year included the following:

- The State spent nearly \$573.1 million on 592 highway and bridge construction projects.
- Commitments of \$1.3 billion have been made for highway and bridge construction.

Additional information on the State's capital assets may be found in Note 5 of this report.

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

The unemployment rate for Oregon rose from 6.4 percent in September 2008 to 8.1 percent in November 2008. The US unemployment rate rose from 6.1 percent to 6.7 percent over the same period. The unemployment rate in Oregon was 5.4 percent in November 2007.

Following seventeen consecutive quarters of job growth, employment began to decline in the second quarter of 2008. The State's December 2008 economic forecast shows employment declining between the first and second quarters of 2008 at an annual rate of 1.7 percent. The employment decline in the third quarter of 2008 was estimated at an annual rate of 0.9 percent, while the decline in the fourth quarter of 2008 is projected to be at an annual rate of 3.2 percent. The projections for the first three quarters of 2009 are declines of 1.8 percent, 1.1 percent, and 0.2 percent (all at annual rates of change). Job growth is expected to resume in the fourth quarter of 2009.

Although the December 2008 General Fund revenue forecast projects an increase in revenues of 6.8 percent for the 2009-11 biennium as compared to the 2007-09 biennium, this same forecast projects a drop in resources for the remainder of the 2007-09 biennium that would leave the General Fund in a deficit of \$142.1 million. To cover this deficit, each state agency's General Fund appropriation will be reduced by just under 1.1 percent of the 2007-09 biennial total. Only monies allotted for payment of debt obligations will not be reduced.

The current economic downturn also affects the amount of revenue forecasted for the 2009-11 biennium. The budget proposed by the Governor for 2009-11 reduces program levels for many parts of state government. Ultimately, the Legislature will have to adopt a budget for the 2009-11 biennium that balances to the May 2009 revenue forecast.

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Basic Financial Statements

Statement of Net Assets
June 30, 2008
(In Thousands)

| (In Thousands) | Primary Government | | | |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 2,592,990 | \$ 3,021,806 | \$ 5,614,796 | \$ 140,844 |
| Cash and Cash Equivalents - Restricted | 11 | 21,450 | 21,461 | - |
| Investments | 1,465,037 | 16,208 | 1,481,245 | 3,681,041 |
| Investments - Restricted | - | 110,106 | 110,106 | - |
| Securities Lending Cash Collateral | 1,900,163 | 937,960 | 2,838,123 | 570,060 |
| Accounts and Interest Receivable (net) | 712,514 | 415,775 | 1,128,289 | 592,502 |
| Taxes Receivable | 432,590 | - | 432,590 | - |
| Pledges, Contributions and Grants Receivable (net) | - | - | - | 263,371 |
| Internal Balances | 159,717 | (159,717) | - | - |
| Due from Component Units | - | 11,244 | 11,244 | - |
| Due from Other Governments | 121 | 7,687 | 7,808 | - |
| Due from Primary Government | - | - | - | 9,939 |
| Inventories | 81,553 | 36,657 | 118,210 | 12,190 |
| Prepaid Items | 5,477 | 18,591 | 24,068 | 52,969 |
| Foreclosed and Deeded Property | - | 660 | 660 | - |
| Total Current Assets | 7,350,173 | 4,438,427 | 11,788,600 | 5,322,916 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents - Restricted | 238,970 | 935,698 | 1,174,668 | - |
| Investments | - | 97,524 | 97,524 | 439,643 |
| Investments - Restricted | 140,233 | 558,749 | 698,982 | 1,617,232 |
| Cash and Securities Held in Trust | 23,073 | - | 23,073 | - |
| Taxes Receivable | 330,038 | - | 330,038 | - |
| Deferred Charges | 23,496 | 18,875 | 42,371 | 8,099 |
| Interfund Loans | (1,681) | 1,681 | - | - |
| Advances to Component Units | - | 26,487 | 26,487 | - |
| Net Contracts, Notes and Other Receivables | 145,843 | 89,547 | 235,390 | - |
| Long-term Receivables - Component Units | 1,951 | - | 1,951 | - |
| Loans Receivable | 506,618 | 2,271,815 | 2,778,433 | - |
| Pledges, Contributions and Grants Receivable (net) | - | - | - | 19,107 |
| Net Pension Asset | 1,837,700 | - | 1,837,700 | - |
| Capital Assets: | | | | |
| Land | 1,691,286 | 106,478 | 1,797,764 | 62,904 |
| Buildings, Property and Equipment | 2,657,864 | 2,669,657 | 5,327,521 | 1,816,515 |
| Construction in Progress | 694,961 | 164,680 | 859,641 | 54,308 |
| Infrastructure | 14,863,177 | 56,437 | 14,919,614 | - |
| Works of Art and Historical Treasures | 1,224 | 61,353 | 62,577 | - |
| Less Accumulated Depreciation and Amortization | (9,850,788) | (1,324,191) | (11,174,979) | (768,853) |
| Total Noncurrent Assets | 13,303,965 | 5,734,790 | 19,038,755 | 3,248,955 |
| Total Assets | \$ 20,654,138 | \$ 10,173,217 | \$ 30,827,355 | \$ 8,571,871 |

(continued on next page)

Statement of Net Assets

June 30, 2008

(In Thousands)

(continued from previous page)

| | Primary Government | | | |
|---|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts and Interest Payable | 735,363 | 195,044 | 930,407 | 180,363 |
| Reserve for Loss and Loss Adjustment Expense | - | - | - | 213,498 |
| Obligations Under Securities Lending | 1,900,163 | 937,960 | 2,838,123 | 570,060 |
| Due to Component Units | 9,795 | - | 9,795 | - |
| Due to Other Governments | 101,470 | 5,039 | 106,509 | 12,085 |
| Due to Primary Government | - | - | - | 26,332 |
| Matured Bonds/COPS and Coupons Payable | 11 | 7,432 | 7,443 | - |
| Obligations Under Capital Lease | 587 | 147 | 734 | 1,494 |
| Bonds/COPS Payable | 245,134 | 152,597 | 397,731 | 6,023 |
| Claims and Judgments Payable | 120,720 | - | 120,720 | 37,729 |
| Trust Funds Payable | 350,468 | 19,053 | 369,521 | 13,759 |
| Unearned Revenue | 52,467 | 96,394 | 148,861 | 289,930 |
| Lottery Prize Awards Payable | - | 30,698 | 30,698 | - |
| Compensated Absences Payable | 98,288 | 49,563 | 147,851 | 47,190 |
| Arbitrage Rebate Payable | 280 | 310 | 590 | - |
| Contracts, Mortgages and Notes Payable | 5,555 | 6,849 | 12,404 | 1,657 |
| Total Current Liabilities | 3,620,301 | 1,501,086 | 5,121,387 | 1,400,120 |
| Noncurrent Liabilities: | | | | |
| Bonds/COPS Payable | 5,554,194 | 3,911,613 | 9,465,807 | 580,492 |
| Obligations Under Capital Lease | 1,893 | 17 | 1,910 | 6,746 |
| Obligations Under Life Income Agreements | - | - | - | 97,747 |
| Obligations to Primary Government | - | - | - | 1,951 |
| Advances from Primary Government | - | - | - | 26,487 |
| Reserve for Loss and Loss Adjustment Expense | - | - | - | 2,591,867 |
| Claims and Judgments Payable | 950,281 | - | 950,281 | 51,879 |
| Trust Funds Payable | - | 369 | 369 | - |
| Lottery Prize Awards Payable | - | 97,524 | 97,524 | - |
| Compensated Absences Payable | 48,410 | 4,138 | 52,548 | - |
| Arbitrage Rebate Payable | 2,419 | 7,788 | 10,207 | - |
| Net OPEB Obligation | 13,687 | 6,494 | 20,181 | 1,579 |
| Contracts, Mortgages and Notes Payable | 3,527 | 1,881 | 5,408 | 29,855 |
| Total Noncurrent Liabilities | 6,574,411 | 4,029,824 | 10,604,235 | 3,388,603 |
| Total Liabilities | 10,194,712 | 5,530,910 | 15,725,622 | 4,788,723 |
| NET ASSETS | | | | |
| Invested in Capital Assets, Net of Related Debt | 8,554,126 | 807,968 | 9,362,094 | 569,274 |
| Expendable Restricted Net Assets: | | | | |
| Restricted for Unemployment Compensation | - | 2,321,424 | 2,321,424 | - |
| Restricted for Residential Assistance | 134,096 | 1,700 | 135,796 | - |
| Restricted for Higher Education | - | 190,284 | 190,284 | - |
| Restricted for Debt Service | - | 289,374 | 289,374 | - |
| Restricted for Capital Construction | 537 | 124,268 | 124,805 | - |
| Restricted for Workers' Compensation | 14 | - | 14 | 905,431 |
| Restricted for Education | 738,917 | - | 738,917 | 1,001,952 |
| Restricted for Natural Resource Programs | 27,372 | - | 27,372 | - |
| Restricted for Health Services | 21,104 | - | 21,104 | - |
| Restricted for Lottery Projects | - | 100,568 | 100,568 | - |
| Restricted for War Veterans' Programs | - | 132,469 | 132,469 | - |
| Nonexpendable Restricted Net Assets: | | | | |
| Restricted for Donor Purposes | - | 17,333 | 17,333 | 620,164 |
| Restricted for Education | 1,443 | - | 1,443 | 130,326 |
| Restricted for Residential Assistance | 23,258 | - | 23,258 | - |
| Restricted for Natural Resource Programs | 3,500 | - | 3,500 | - |
| Restricted for Workers' Compensation | 250 | - | 250 | - |
| Unrestricted | 954,809 | 656,919 | 1,611,728 | 556,001 |
| Total Net Assets | \$ 10,459,426 | \$ 4,642,307 | \$ 15,101,733 | \$ 3,783,148 |

The notes to the financial statements are an integral part of this statement.

State of Oregon

Statement of Activities
For the Year Ended June 30, 2008
(In Thousands)

| Functions/Programs | Program Revenues | | | | |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| Education | \$ 4,174,928 | \$ 6,981 | \$ 573,973 | \$ 10,056 | \$ (3,583,918) |
| Human Services | 5,316,540 | 230,058 | 3,264,678 | - | (1,821,804) |
| Public Safety | 1,183,931 | 67,869 | 168,608 | 14,018 | (933,436) |
| Economic and Community Development | 355,133 | 23,027 | 280,651 | - | (51,455) |
| Natural Resources | 613,329 | 300,685 | 13,605 | - | (299,039) |
| Transportation | 2,251,391 | 153,423 | 509,770 | 3,537 | (1,584,661) |
| Consumer and Business Services | 461,015 | 258,299 | 37,791 | - | (164,925) |
| Administration | 570,903 | 282,977 | 311,611 | - | 23,685 |
| Legislative | 39,142 | 2,459 | 304 | - | (36,379) |
| Judicial | 311,828 | 136,327 | 1,498 | - | (174,003) |
| Interest on Long-term Debt | 315,530 | - | - | - | (315,530) |
| Total Governmental Activities | 15,593,670 | 1,462,105 | 5,162,489 | 27,611 | (8,941,465) |
| Business-type Activities: | | | | | |
| Housing and Community Services | 100,706 | 80,135 | 30,604 | - | 10,033 |
| Veterans' Loan | 46,652 | 21,980 | 33,154 | - | 8,482 |
| Lottery Operations | 573,203 | 1,229,486 | 28,068 | - | 684,351 |
| Unemployment Compensation | 687,363 | 638,186 | 148,234 | - | 99,057 |
| University System | 1,808,424 | 954,039 | 410,433 | - | (443,952) |
| State Hospitals | 203,818 | 35,191 | - | - | (168,627) |
| Liquor Control | 307,380 | 406,421 | - | - | 99,041 |
| Other Business-type Activities | 75,134 | 76,452 | 13,686 | - | 15,004 |
| Total Business-type Activities | 3,802,680 | 3,441,890 | 664,179 | - | 303,389 |
| Total Primary Government | \$ 19,396,350 | \$ 4,903,995 | \$ 5,826,668 | \$ 27,611 | \$ (8,638,076) |
| Component Units: | | | | | |
| SAIF Corporation | \$ 584,248 | \$ 480,244 | \$ 178,251 | \$ - | \$ 74,247 |
| Oregon Health and Science University | 1,537,215 | 1,027,421 | 552,122 | 6,847 | 49,175 |
| Oregon University System Foundations | 208,524 | 17,197 | 344,340 | 748 | 153,761 |
| Total Component Units | \$ 2,329,987 | \$ 1,524,862 | \$ 1,074,713 | \$ 7,595 | \$ 277,183 |

(continued on next page)

Statement of Activities
For the Year Ended June 30, 2008
(In Thousands)
(continued from previous page)

| | Primary Government | | | Component Units |
|---|----------------------------|---------------------------------|----------------------|---------------------|
| | Governmental Activities | Business- type Activities | Total | |
| Changes in Net Assets: | | | | |
| Net (Expense) Revenue | \$ (8,941,465) | \$ 303,389 | \$ (8,638,076) | \$ 277,183 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Personal Income Taxes | 6,102,900 | - | 6,102,900 | - |
| Corporate Income Taxes | 448,010 | - | 448,010 | - |
| Tobacco Taxes | 254,524 | - | 254,524 | - |
| Healthcare Provider Taxes | 154,460 | - | 154,460 | - |
| Inheritance Taxes | 116,186 | - | 116,186 | - |
| Public Utilities Taxes | 89,621 | - | 89,621 | - |
| Insurance Premium Taxes | 42,721 | - | 42,721 | - |
| Other Taxes | 123,907 | 16,086 | 139,993 | - |
| Restricted for Transportation Purposes: | | | | |
| Motor Fuels Taxes | 413,858 | - | 413,858 | - |
| Weight-Mile Taxes | 237,296 | - | 237,296 | - |
| Vehicle Registration Taxes | 201,245 | - | 201,245 | - |
| Restricted for Workers' Compensation and Workplace Safety Programs: | | | | |
| Employer-Employee Taxes | 76,576 | - | 76,576 | - |
| Workers' Compensation Insurance Taxes | 40,733 | - | 40,733 | - |
| Total Taxes | 8,302,037 | 16,086 | 8,318,123 | - |
| Unrestricted Investment Earnings | 81,815 | - | 81,815 | - |
| Capital Contributions | 4,482 | 71,716 | 76,198 | - |
| Transfers - Internal Activities | 154,510 | (154,510) | - | - |
| Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers | 8,542,844 | (66,708) | 8,476,136 | - |
| Change in Net Assets | (398,621) | 236,681 | (161,940) | 277,183 |
| Net Assets - Beginning | 10,873,196 | 4,395,977 | 15,269,173 | 3,506,149 |
| Prior Period Adjustments | (15,149) | 9,649 | (5,500) | (184) |
| Net Assets - Beginning - As Restated | 10,858,047 | 4,405,626 | 15,263,673 | 3,505,965 |
| Net Assets - Ending | \$ 10,459,426 | \$ 4,642,307 | \$ 15,101,733 | \$ 3,783,148 |

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2008
(In Thousands)

| | General | Health and Social Services | Public Transportation |
|--|-------------------|-------------------------------|--------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 20,023 | \$ 364,825 | \$ 563,840 |
| Investments | - | 28,320 | 113,623 |
| Cash and Securities Held in Trust | - | - | 19,036 |
| Securities Lending Cash Collateral | 11,160 | 203,938 | 355,642 |
| Accounts and Interest Receivable (net) | 9,459 | 274,196 | 117,737 |
| Taxes Receivable | 695,517 | 14,987 | 44,159 |
| Due from Other Funds | 28,654 | 14,702 | 2,027 |
| Due from Other Governments | - | - | - |
| Inventories | 30,222 | 1,736 | 21,972 |
| Prepaid Items | 4,587 | 14 | - |
| Advances to Other Funds | 40,598 | - | - |
| Net Contracts, Notes and Other Receivables | 12,601 | 4,062 | 2,582 |
| Long-term Receivables - Component Units | - | - | - |
| Loans Receivable | - | 278 | 15,819 |
| Total Assets | \$ 852,821 | \$ 907,058 | \$ 1,256,437 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts and Interest Payable | \$ 173,433 | \$ 160,290 | \$ 142,953 |
| Obligations Under Securities Lending | 11,160 | 203,938 | 355,642 |
| Due to Other Funds | 6,879 | 17,787 | 14,536 |
| Due to Component Units | - | 9,795 | - |
| Due to Other Governments | 127 | 10,193 | 58,933 |
| Matured Bonds/COPs and Coupons Payable | 11 | - | - |
| Advances from Other Funds | 985 | - | 24 |
| Trust Funds Payable | 6,801 | 14,844 | 19,046 |
| Deferred Revenue | 449,507 | 8,734 | 11,347 |
| Contracts, Mortgages and Notes Payable | - | - | 131 |
| Total Liabilities | 648,903 | 425,581 | 602,612 |
| Fund Balances: | | | |
| Reserved for Encumbrances | 127,412 | 2,806 | - |
| Reserved for Inventories | 30,222 | 1,736 | 21,972 |
| Reserved for Loans Receivable | - | 278 | 15,819 |
| Reserved for Other Long-term Receivables | - | 755 | - |
| Reserved for Advances to Other Funds | 40,598 | - | - |
| Reserved for Prepaid Items | 4,587 | 14 | - |
| Reserved for Debt Service | - | - | - |
| Reserved for Permanent Fund Principal | - | - | - |
| Reserved for Claims and Judgments Payable | - | - | - |
| Reserved for Revolving Accounts | 4 | 217 | 40 |
| Unreserved, Undesignated | 1,095 | 475,671 | 615,994 |
| Unreserved, Undesignated, Reported in: | | | |
| Special Revenue Funds | - | - | - |
| Capital Projects Funds | - | - | - |
| Permanent Funds | - | - | - |
| Total Fund Balances | 203,918 | 481,477 | 653,825 |
| Total Liabilities and Fund Balances | \$ 852,821 | \$ 907,058 | \$ 1,256,437 |

The notes to the financial statements are an integral part of this statement.

State of Oregon

| Environmental Management | Common School | Oregon Rainy Day | Other | Total |
|-------------------------------------|--------------------------|-----------------------------|---------------------|---------------------|
| \$ 304,106 | \$ 46,632 | \$ 329,808 | \$ 1,143,709 | \$ 2,772,943 |
| 873 | 1,015,175 | - | 356,289 | 1,514,280 |
| 867 | 682 | - | 2,488 | 23,073 |
| 169,575 | 123,376 | 183,941 | 671,134 | 1,718,766 |
| 32,444 | 9,499 | - | 196,501 | 639,836 |
| - | - | - | 7,965 | 762,628 |
| 41,005 | 916 | 867 | 328,650 | 416,821 |
| - | - | - | 122 | 122 |
| 19,626 | 20 | - | 6,289 | 79,865 |
| 12 | - | - | 440 | 5,053 |
| - | 332 | - | - | 40,930 |
| 2,631 | 20 | - | 122,002 | 143,898 |
| - | - | - | 1,951 | 1,951 |
| 387,324 | 1,661 | - | 101,536 | 506,618 |
| \$ 958,463 | \$ 1,198,313 | \$ 514,616 | \$ 2,939,076 | \$ 8,626,784 |
| | | | | |
| \$ 24,402 | \$ 8,331 | \$ - | \$ 153,918 | \$ 663,327 |
| 169,575 | 123,376 | 183,941 | 671,134 | 1,718,766 |
| 4,424 | 29,845 | - | 183,931 | 257,402 |
| - | - | - | - | 9,795 |
| 14,719 | - | - | 17,497 | 101,469 |
| - | - | - | - | 11 |
| 300 | - | - | 41,738 | 43,047 |
| 5,122 | 299,975 | - | 4,230 | 350,018 |
| 11,815 | 19 | - | 138,006 | 619,428 |
| - | - | - | 393 | 524 |
| 230,357 | 461,546 | 183,941 | 1,210,847 | 3,763,787 |
| | | | | |
| 28,857 | - | - | 150,688 | 309,763 |
| 19,626 | 20 | - | 6,289 | 79,865 |
| 387,324 | 1,661 | - | 101,536 | 506,618 |
| 271 | 1 | - | 92 | 1,119 |
| - | 332 | - | - | 40,930 |
| 12 | - | - | 440 | 5,053 |
| - | - | - | 223,136 | 223,136 |
| - | - | - | 28,450 | 28,450 |
| - | - | - | 187,850 | 187,850 |
| 368 | - | - | 233 | 862 |
| 291,648 | 734,753 | 330,675 | - | 2,449,836 |
| | | | | |
| - | - | - | 998,230 | 998,230 |
| - | - | - | 23,218 | 23,218 |
| - | - | - | 8,067 | 8,067 |
| 728,106 | 736,767 | 330,675 | 1,728,229 | 4,862,997 |
| \$ 958,463 | \$ 1,198,313 | \$ 514,616 | \$ 2,939,076 | \$ 8,626,784 |

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008
(In Thousands)

Total fund balances of governmental funds \$ 4,862,997

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

| | | |
|---|--------------------|------------------|
| Land | 1,680,397 | |
| Buildings, property and equipment | 2,112,509 | |
| Construction in progress | 678,396 | |
| Infrastructure | 14,862,540 | |
| Works of art and historical treasures | 1,083 | |
| Accumulated depreciation and amortization | <u>(9,632,690)</u> | |
| Total capital assets | | 9,702,235 |

The net pension asset resulting from contributions in excess of the annual required contribution in 2004 are not financial resources and, therefore, are not reported in the funds. (See Note 13) 1,837,700

Some of the State's revenues will be collected after year end but are not available soon enough to pay the current year liabilities and, therefore, are deferred in the funds. 594,082

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 201,817

Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets but are reported as expenditures in the funds. 22,515

Some liabilities are not due and payable in the current year and, therefore, are not reported in the funds. Those liabilities consist of:

| | | |
|---|----------------|---------------------------|
| Bonds and COPS | (5,596,654) | |
| Accrued interest on bonds and COPS | (50,511) | |
| Claims and judgments | (950,032) | |
| Compensated absences | (138,473) | |
| Obligations under capital leases | (2,480) | |
| Net OPEB obligation | (13,127) | |
| Arbitrage rebate | (2,390) | |
| Contracts, mortgages, and notes payable | <u>(8,253)</u> | |
| Total long-term liabilities | | <u>(6,761,920)</u> |

Net assets of governmental activities **\$ 10,459,426**

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008
(In Thousands)

| | General | Health and Social Services | Public Transportation |
|---|-------------------|-------------------------------|--------------------------|
| Revenues: | | | |
| Personal Income Taxes | \$ 6,067,272 | \$ - | \$ - |
| Corporate Income Taxes | 446,734 | - | - |
| Tobacco Taxes | 58,395 | 196,395 | - |
| Healthcare Provider Taxes | - | 154,460 | - |
| Inheritance Taxes | 116,186 | - | - |
| Public Utilities Taxes | - | - | - |
| Insurance Premium Taxes | 42,721 | - | - |
| Motor Fuels Taxes | - | - | 413,105 |
| Weight-Mile Taxes | - | - | 238,860 |
| Vehicle Registration Taxes | - | - | 201,245 |
| Employer-Employee Taxes | - | - | - |
| Workers' Compensation Insurance Taxes | - | - | - |
| Other Taxes | 446 | 72,246 | 2,073 |
| Licenses and Fees | 36,574 | 81,930 | 64,289 |
| Federal | - | 2,705,061 | 569,762 |
| Charges for Services | 4,339 | 123,404 | 66,130 |
| Fines and Forfeitures | 1,065 | 1,057 | 5,614 |
| Rents and Royalties | - | 724 | 5,471 |
| Investment Income | 81,815 | 14,400 | 48,199 |
| Sales | 679 | 4,479 | 15,620 |
| Donations and Grants | 5 | 9,275 | 207 |
| Tobacco Settlement Proceeds | - | 90,297 | - |
| Pension Bond Debt Service Assessments | - | - | - |
| Other | 10,555 | 245,640 | 2,812 |
| Total Revenues | 6,866,786 | 3,699,368 | 1,633,387 |
| Expenditures: | | | |
| Current: | | | |
| Education | 3,103,319 | - | - |
| Human Services | 1,625,532 | 3,145,856 | - |
| Public Safety | 836,027 | - | - |
| Economic and Community Development | 8,677 | - | - |
| Natural Resources | 64,869 | - | - |
| Transportation | 4,293 | 8,259 | 1,614,096 |
| Consumer and Business Services | 6,228 | 159,411 | - |
| Administration | 135,342 | 79,117 | 127,802 |
| Legislative | 35,511 | - | - |
| Judicial | 263,990 | 1,151 | - |
| Capital Improvements and Capital Construction | - | - | - |
| Debt Service: | | | |
| Principal | 43,643 | - | - |
| Interest | 68,712 | - | 652 |
| Other Debt Service | 834 | 304 | 301 |
| Total Expenditures | 6,196,977 | 3,394,098 | 1,742,851 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 669,809 | 305,270 | (109,464) |
| Other Financing Sources (Uses): | | | |
| Transfers from Other Funds | 121,716 | 104,001 | 4,246 |
| Transfers to Other Funds | (772,881) | (205,703) | (155,470) |
| Insurance Recoveries | 41 | - | 1,948 |
| Long-term Debt Issued | - | 22,612 | 10,060 |
| Debt Issuance Premium | - | 306 | - |
| Refunded Debt Issued | - | - | - |
| Leases Incurred | - | - | - |
| Refunded Debt Payment to Escrow Agent | - | - | - |
| Total Other Financing Sources (Uses) | (651,124) | (78,784) | (139,216) |
| Net Change in Fund Balances | 18,685 | 226,486 | (248,680) |
| Fund Balances - Beginning | 183,896 | 277,093 | 901,384 |
| Prior Period Adjustments | (466) | (21,919) | 972 |
| Fund Balances - Beginning - As Restated | 183,430 | 255,174 | 902,356 |
| Change in Reserve for Inventories | 1,803 | (183) | 149 |
| Fund Balances - Ending | \$ 203,918 | \$ 481,477 | \$ 653,825 |

The notes to the financial statements are an integral part of this statement.

State of Oregon

| Environmental Management | Common School | Oregon Rainy Day | Other | Total |
|-----------------------------|------------------|---------------------|--------------|--------------|
| \$ - | \$ - | \$ - | \$ - | \$ 6,067,272 |
| - | - | - | - | 446,734 |
| - | - | - | - | 254,790 |
| - | - | - | - | 154,460 |
| - | - | - | - | 116,186 |
| - | - | - | 89,621 | 89,621 |
| - | - | - | - | 42,721 |
| - | - | - | - | 413,105 |
| - | - | - | - | 238,860 |
| - | - | - | - | 201,245 |
| - | - | - | 76,576 | 76,576 |
| - | - | - | 40,733 | 40,733 |
| 18,634 | - | - | 23,781 | 117,180 |
| 110,182 | 1,569 | - | 143,964 | 438,508 |
| 93,737 | - | - | 1,605,221 | 4,973,781 |
| 36,318 | 130 | - | 77,457 | 307,778 |
| 538 | 21 | - | 91,880 | 100,175 |
| 3,469 | 3,707 | - | 4,814 | 18,185 |
| 26,177 | (115,963) | 13,350 | 100,336 | 168,314 |
| 96,963 | 849 | - | 6,692 | 125,282 |
| 1,717 | - | 1 | 25,735 | 36,940 |
| - | - | - | - | 90,297 |
| - | - | - | 121,035 | 121,035 |
| 15,414 | 318 | - | 79,779 | 354,518 |
| 403,149 | (109,369) | 13,351 | 2,487,624 | 14,994,296 |
| - | - | - | 1,071,603 | 4,174,922 |
| - | - | - | 576,602 | 5,347,990 |
| - | - | - | 339,854 | 1,175,881 |
| - | - | - | 345,719 | 354,396 |
| 512,797 | 13,174 | - | 38,784 | 629,624 |
| - | - | - | 9,512 | 1,636,160 |
| - | - | - | 301,278 | 466,917 |
| 1 | - | 1,964 | 182,465 | 526,691 |
| - | - | - | 1,945 | 37,456 |
| - | - | - | 46,575 | 311,716 |
| - | - | - | 78,195 | 78,195 |
| 71 | - | - | 135,457 | 179,171 |
| - | - | - | 237,124 | 306,488 |
| 145 | - | - | 736 | 2,320 |
| 513,014 | 13,174 | 1,964 | 3,365,849 | 15,227,927 |
| (109,865) | (122,543) | 11,387 | (878,225) | (233,631) |
| 165,996 | 10,217 | - | 1,809,787 | 2,215,963 |
| (40,645) | (60,335) | - | (823,079) | (2,058,113) |
| 872 | - | - | 1,185 | 4,046 |
| 15,142 | - | - | 50,195 | 98,009 |
| 63 | - | - | 1,343 | 1,712 |
| - | - | - | 14,310 | 14,310 |
| 134 | - | - | - | 134 |
| - | - | - | (15,036) | (15,036) |
| 141,562 | (50,118) | - | 1,038,705 | 261,025 |
| 31,697 | (172,661) | 11,387 | 160,480 | 27,394 |
| 707,856 | 909,431 | 319,288 | 1,552,008 | 4,850,956 |
| (12,381) | - | - | 14,987 | (18,807) |
| 695,475 | 909,431 | 319,288 | 1,566,995 | 4,832,149 |
| 934 | (3) | - | 754 | 3,454 |
| \$ 728,106 | \$ 736,767 | \$ 330,675 | \$ 1,728,229 | \$ 4,862,997 |

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**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008
(In Thousands)**

Net change in fund balances of total governmental funds **\$ 27,394**

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

| | | |
|--|-----------|-----------|
| Capital outlay | 211,251 | |
| Depreciation expense | (715,112) | |
| | | |
| Excess of depreciation over capital outlay | | (503,861) |

The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets. (2,503)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing. In the Statement of Net Assets, a lease obligation is reported as a liability. (134)

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets. (114,031)

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Assets. 194,207

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities. 5,589

Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds.

| | | |
|--|----------|----------|
| Accrued interest on long-term debt | 5,727 | |
| Claims and judgments payable | 5,579 | |
| Compensated absences | (10,863) | |
| Net pension asset | (45,400) | |
| Net OPEB obligation | (13,127) | |
| Contracts, mortgages and notes payable | (1,488) | |
| Total | | (59,572) |

Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds. (335)

Some revenues will not be collected for several months after the State's fiscal year ends. Therefore, they are not considered "available" revenues and are deferred in the governmental funds. 43,711

The change in inventory is reported as a separate line after the change in fund balances in governmental funds but is included in expenses in the Statement of Activities. 3,454

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities. 7,460

Change in net assets of governmental activities **\$ (398,621)**

Balance Sheet
Proprietary Funds
June 30, 2008
(In Thousands)

Business-type Activities - Enterprise Funds

ASSETS

Current Assets:

| | | | |
|--|----------------|----------------|----------------|
| Cash and Cash Equivalents | \$ 9,535 | \$ 87,234 | \$ 269,728 |
| Cash and Cash Equivalents - Restricted | 11,756 | 6,686 | - |
| Investments | - | 2,511 | 13,697 |
| Investments - Restricted | 53,916 | 56,190 | - |
| Securities Lending Cash Collateral | 27,937 | 220,256 | 177,621 |
| Accounts and Interest Receivable (net) | 8,565 | 3,063 | 27,770 |
| Due from Other Funds | 39 | 63 | - |
| Due from Component Units | - | - | - |
| Due from Other Governments | - | - | - |
| Inventories | - | - | 2,215 |
| Prepaid Items | - | 16 | 908 |
| Foreclosed and Deeded Property | 650 | 10 | - |
| Total Current Assets | 112,398 | 376,029 | 491,939 |

Noncurrent Assets:

| | | | |
|--|------------------|----------------|----------------|
| Cash and Cash Equivalents - Restricted | 47,206 | 372,931 | - |
| Investments | - | - | 97,524 |
| Investments - Restricted | 390,158 | 84,614 | - |
| Deferred Charges | 13,408 | 2,159 | - |
| Advances to Other Funds | - | - | - |
| Advances to Component Units | - | - | - |
| Net Contracts, Notes and Other Receivables | - | 4,385 | 2,694 |
| Loans Receivable | 1,381,959 | 304,414 | - |
| Capital Assets: | | | |
| Land | - | - | - |
| Buildings, Property and Equipment | 262 | 9,484 | 172,844 |
| Construction in Progress | - | - | 60 |
| Infrastructure | - | - | - |
| Works of Art and Historical Treasures | - | 85 | - |
| Less Accumulated Depreciation and Amortization | (257) | (5,226) | (63,402) |
| Total Noncurrent Assets | 1,832,736 | 772,846 | 209,720 |

Total Assets

| | | |
|---------------------|---------------------|-------------------|
| \$ 1,945,134 | \$ 1,148,875 | \$ 701,659 |
|---------------------|---------------------|-------------------|

The notes to the financial statements are an integral part of this statement.

| Business-type Activities - Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|---|----------------------|--------------|---------------|------------|---|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 2,135,570 | \$ 355,334 | \$ 164,405 | \$ 3,021,806 | \$ 58,754 | |
| - | 2,905 | 103 | 21,450 | - | |
| - | - | - | 16,208 | 83,863 | |
| - | - | - | 110,106 | - | |
| 9,097 | 414,901 | 88,148 | 937,960 | 181,398 | |
| 170,327 | 185,449 | 20,601 | 415,775 | 71,878 | |
| - | 7,392 | 12,490 | 19,984 | 4,530 | |
| - | 11,244 | - | 11,244 | - | |
| 7,687 | - | - | 7,687 | - | |
| - | 6,686 | 27,756 | 36,657 | 1,689 | |
| - | 16,582 | 1,085 | 18,591 | 423 | |
| - | - | - | 660 | - | |
| 2,322,681 | 1,000,493 | 314,588 | 4,618,128 | 402,535 | |
| - | 457,709 | 57,852 | 935,698 | 272 | |
| - | - | - | 97,524 | - | |
| - | 81,729 | 2,248 | 558,749 | 7,127 | |
| - | - | 3,308 | 18,875 | 981 | |
| 1,108 | - | 19,368 | 20,476 | 757 | |
| - | 26,487 | - | 26,487 | - | |
| 11,570 | 70,890 | 7 | 89,546 | 1,945 | |
| - | - | 585,442 | 2,271,815 | - | |
| - | 101,018 | 5,460 | 106,478 | 10,889 | |
| - | 2,373,988 | 113,079 | 2,669,657 | 545,355 | |
| - | 164,620 | - | 164,680 | 16,565 | |
| - | 55,557 | 880 | 56,437 | 637 | |
| - | 61,228 | 40 | 61,353 | 141 | |
| - | (1,207,617) | (47,689) | (1,324,191) | (218,098) | |
| 12,678 | 2,185,609 | 739,995 | 5,753,584 | 366,571 | |
| \$ 2,335,359 | \$ 3,186,102 | \$ 1,054,583 | \$ 10,371,712 | \$ 769,106 | |

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2008
(In Thousands)

(continued from previous page)

| | Business-type Activities - Enterprise Funds | | |
|---|--|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts and Interest Payable | \$ 36,181 | \$ 3,668 | \$ 13,599 |
| Obligations Under Securities Lending | 27,937 | 220,256 | 177,621 |
| Due to Other Funds | 51 | - | 169,393 |
| Due to Other Governments | - | - | - |
| Matured Bonds/COPS and Coupons Payable | 26 | 4,398 | - |
| Obligations Under Capital Lease | - | - | - |
| Bonds/COPS Payable | 30,681 | 41,510 | - |
| Claims and Judgments Payable | - | - | - |
| Trust Funds Payable | - | 2,287 | 131 |
| Unearned Revenue | 884 | - | - |
| Lottery Prize Awards Payable | - | - | 30,698 |
| Compensated Absences Payable | 182 | 280 | 1,630 |
| Arbitrage Rebate Payable | - | 268 | - |
| Contracts, Mortgages and Notes Payable | - | 1,000 | - |
| Total Current Liabilities | <u>95,942</u> | <u>273,667</u> | <u>393,072</u> |
| Noncurrent Liabilities: | | | |
| Bonds/COPS Payable | 1,657,154 | 735,046 | - |
| Obligations Under Capital Lease | - | - | - |
| Advances from Other Funds | - | - | - |
| Claims and Judgments Payable | - | - | - |
| Trust Funds Payable | - | - | - |
| Lottery Prize Awards Payable | - | - | 97,524 |
| Compensated Absences Payable | 89 | 137 | 803 |
| Arbitrage Rebate Payable | 3,397 | 3,181 | - |
| Net OPEB Obligation | 27 | 32 | 190 |
| Contracts, Mortgages and Notes Payable | 1,500 | - | - |
| Total Noncurrent Liabilities | <u>1,662,167</u> | <u>738,396</u> | <u>98,517</u> |
| Total Liabilities | <u>1,758,109</u> | <u>1,012,063</u> | <u>491,589</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 5 | 4,343 | 109,502 |
| Expendable Restricted Net Assets: | | | |
| Restricted for Residential Assistance | 1,700 | - | - |
| Restricted for Higher Education | - | - | - |
| Restricted for Debt Service | 176,323 | - | - |
| Restricted for Capital Construction | - | - | - |
| Nonexpendable Restricted Net Assets: | | | |
| Restricted for Donor Purposes | - | - | - |
| Unrestricted | 8,997 | 132,469 | 100,568 |
| Total Net Assets | <u>187,025</u> | <u>136,812</u> | <u>210,070</u> |
| Total Liabilities and Net Assets | <u>\$ 1,945,134</u> | <u>\$ 1,148,875</u> | <u>\$ 701,659</u> |

The notes to the financial statements are an integral part of this statement.

State of Oregon

| Business-type Activities - Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|--|------------------------------|--------------|---------------|----|---|
| Unemployment Compensation | University System | Other | Total | | |
| \$ - | \$ 110,586 | \$ 31,010 | \$ 195,044 | \$ | 21,524 |
| 9,097 | 414,901 | 88,148 | 937,960 | | 181,398 |
| - | - | 12,713 | 182,157 | | 976 |
| 4,845 | - | 194 | 5,039 | | - |
| - | 2,905 | 103 | 7,432 | | - |
| - | 101 | 46 | 147 | | - |
| - | 35,637 | 44,769 | 152,597 | | 25,243 |
| - | - | - | - | | 29,975 |
| 1,367 | 13,145 | 2,123 | 19,053 | | 450 |
| - | 94,699 | 811 | 96,394 | | 27,121 |
| - | - | - | 30,698 | | - |
| - | 41,018 | 6,453 | 49,563 | | 5,510 |
| - | - | 42 | 310 | | - |
| - | 5,849 | - | 6,849 | | 305 |
| 15,309 | 718,841 | 186,412 | 1,683,243 | | 292,502 |
| - | 1,225,613 | 293,800 | 3,911,613 | | 177,431 |
| - | 12 | 5 | 17 | | - |
| - | 18,694 | 100 | 18,794 | | 322 |
| - | - | - | - | | 90,994 |
| - | - | 369 | 369 | | - |
| - | - | - | 97,524 | | - |
| - | - | 3,109 | 4,138 | | 2,715 |
| - | 1,137 | 73 | 7,788 | | 309 |
| - | 5,150 | 1,095 | 6,494 | | 560 |
| - | 381 | - | 1,881 | | - |
| - | 1,250,987 | 298,551 | 4,048,618 | | 272,331 |
| 15,309 | 1,969,828 | 484,963 | 5,731,861 | | 564,833 |
| - | 631,626 | 62,492 | 807,968 | | 167,433 |
| - | - | - | 1,700 | | - |
| - | 190,284 | - | 190,284 | | - |
| - | 82,314 | 30,737 | 289,374 | | - |
| - | 124,268 | - | 124,268 | | - |
| - | 17,333 | - | 17,333 | | - |
| 2,320,050 | 170,449 | 476,391 | 3,208,924 | | 36,840 |
| 2,320,050 | 1,216,274 | 569,620 | 4,639,851 | | 204,273 |
| \$ 2,335,359 | \$ 3,186,102 | \$ 1,054,583 | \$ 10,371,712 | \$ | 769,106 |

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are included with the business-type activities.

| | |
|--|---------------------|
| | 2,456 |
| Net assets of business-type activities | <u>\$ 4,642,307</u> |

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008
(In Thousands)

| | Business-type Activities - Enterprise Funds | | |
|---|--|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| Operating Revenues: | | | |
| Assessments | \$ - | \$ - | \$ - |
| Licenses and Fees | 4,088 | 117 | - |
| Federal | - | - | - |
| Charges for Services | 1,349 | 2,773 | - |
| Fines and Forfeitures | - | - | - |
| Rents and Royalties | - | 640 | - |
| Sales | - | 3 | 1,233,782 |
| Loan Interest Income | 74,586 | 18,050 | - |
| Investment Income | 30,603 | 33,154 | - |
| Gifts, Grants and Contracts | - | - | - |
| Other | 6 | 397 | - |
| Gain (Loss) on Foreclosed Property | 106 | - | - |
| Total Operating Revenues | 110,738 | 55,134 | 1,233,782 |
| Operating Expenses: | | | |
| Salaries and Wages | 6,056 | 5,954 | 34,323 |
| Services and Supplies | 8,663 | 12,747 | 282,252 |
| Cost of Goods Sold | - | - | - |
| Distributions to Other Governments | 449 | - | - |
| Loan Interest Expense | 70 | 722 | - |
| Special Payments | 7,359 | 99 | 225,330 |
| Bond and COP Interest | 77,551 | 26,857 | - |
| Other Debt Service | 600 | 151 | - |
| Depreciation and Amortization | 17 | 160 | 30,843 |
| Bad Debt Expense | (78) | - | - |
| Total Operating Expenses | 100,687 | 46,690 | 572,748 |
| Operating Income (Loss) | 10,051 | 8,444 | 661,034 |
| Nonoperating Revenues (Expenses): | | | |
| Investment Income (Loss) | - | - | 28,068 |
| Other Taxes | - | - | - |
| Other Nonoperating Items | - | - | (4,321) |
| Gain (Loss) on Disposition of Assets | - | - | - |
| Insurance Recoveries | - | - | 26 |
| Loan Interest Income | - | - | - |
| Loan Interest Expense | - | - | - |
| Total Nonoperating Revenues (Expenses) | - | - | 23,773 |
| Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers | 10,051 | 8,444 | 684,807 |
| Capital Contributions | - | - | - |
| Transfers from Other Funds | 4,647 | 399 | - |
| Transfers to Other Funds | - | - | (654,443) |
| Change in Net Assets | 14,698 | 8,843 | 30,364 |
| Net Assets - Beginning | 172,327 | 127,969 | 179,706 |
| Prior Period Adjustments | - | - | - |
| Net Assets - Beginning - As Restated | 172,327 | 127,969 | 179,706 |
| Net Assets - Ending | \$ 187,025 | \$ 136,812 | \$ 210,070 |

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds

| | | | | Governmental Activities Internal Service Funds | |
|--------------------------------------|------------------------------|-------------------|---------------------|---|--|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 621,928 | \$ - | \$ - | \$ 621,928 | \$ - | |
| - | - | 4,233 | 8,438 | - | |
| 29,321 | 322,808 | 3,105 | 355,234 | - | |
| - | 496,157 | 59,864 | 560,143 | 291,218 | |
| 2,411 | - | 503 | 2,914 | - | |
| - | - | 112 | 752 | 40,201 | |
| - | 337,108 | 420,744 | 1,991,637 | 11,297 | |
| - | - | 27,992 | 120,628 | - | |
| 118,912 | - | 10,517 | 193,186 | - | |
| - | 70,645 | - | 70,645 | - | |
| 13,847 | 24,109 | 4,601 | 42,960 | 19,222 | |
| - | - | - | 106 | - | |
| 786,419 | 1,250,827 | 531,671 | 3,968,571 | 361,938 | |
| - | 1,147,478 | 194,887 | 1,388,698 | 122,734 | |
| 20,916 | 422,371 | 106,221 | 853,170 | 177,963 | |
| - | - | 215,069 | 215,069 | 20,109 | |
| 14,466 | - | 46,484 | 61,399 | 103 | |
| - | - | - | 792 | - | |
| 655,966 | 95,695 | 257 | 984,706 | - | |
| - | 53,072 | 16,971 | 174,451 | 9,042 | |
| - | - | 256 | 1,007 | 155 | |
| - | 91,724 | 4,321 | 127,065 | 34,775 | |
| (4,484) | - | 1,881 | (2,681) | - | |
| 686,864 | 1,810,340 | 586,347 | 3,803,676 | 364,881 | |
| 99,555 | (559,513) | (54,676) | 164,895 | (2,943) | |
| - | 16,981 | 62 | 45,111 | 12,614 | |
| - | - | 16,086 | 16,086 | - | |
| - | 95,654 | - | 91,333 | - | |
| - | 1,562 | 25 | 1,587 | 553 | |
| - | 1,011 | 17 | 1,054 | 382 | |
| - | - | - | - | 45 | |
| - | - | (9) | (9) | (20) | |
| - | 115,208 | 16,181 | 155,162 | 13,574 | |
| 99,555 | (444,305) | (38,495) | 320,057 | 10,631 | |
| - | 71,716 | - | 71,716 | 101 | |
| 347 | 453,127 | 296,552 | 755,072 | 3,597 | |
| (35,814) | (70) | (219,254) | (909,581) | (7,452) | |
| 64,088 | 80,468 | 38,803 | 237,264 | 6,877 | |
| 2,246,909 | 1,135,806 | 530,221 | 4,392,938 | 197,057 | |
| 9,053 | - | 596 | 9,649 | 339 | |
| 2,255,962 | 1,135,806 | 530,817 | 4,402,587 | 197,396 | |
| \$ 2,320,050 | \$ 1,216,274 | \$ 569,620 | \$ 4,639,851 | \$ 204,273 | |

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with the business-type activities.

| | |
|--|-------------------|
| Change in net assets of business-type activities | (583) |
| | <u>\$ 236,681</u> |

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008
(In Thousands)

Cash Flows from Operating Activities:

Receipts from Customers
 Receipts from Other Funds for Services
 Loan Principal Repayments
 Loan Interest Received
 Taxes and Assessments Received
 Payments to Employees for Services
 Payments to Suppliers
 Payments to Other Funds for Services
 Payments to Prize Winners
 Claims Paid
 Loans Made
 Distributions to Other Governments
 Other Receipts (Payments)

Net Cash Provided (Used) in Operating Activities

Cash Flows from Noncapital Financing Activities:

Proceeds from Bond/COP Sales
 Loan Proceeds
 Principal Payments on Bonds/COPS
 Principal Payments on Loans
 Interest Payments on Bonds/COPS
 Interest Payments on Loans
 Bond/COP Issuance Costs
 Repayments on Advances Received
 Interest Payments on Advances
 Taxes and Assessments Received
 Other Nonoperating Receipts (Payments)
 Transfers from Other Funds
 Transfers to Other Funds

Net Cash Provided (Used) in Noncapital Financing Activities

Cash Flows from Capital and Related Financing Activities:

Proceeds from Bond/COP Sales
 Principal Payments on Bonds/COPS
 Interest Payments on Bonds/COPS
 Bond/COP Issuance Costs
 Repayments on Advances Received
 Interest Payments on Advances
 Principal Payments on Loans
 Interest Payments on Loans
 Acquisition of Capital Assets
 Proceeds from Disposition of Capital Assets
 Capital Contributions

Net Cash Provided (Used) in Capital and Related Financing Activities

Cash Flows from Investing Activities:

Purchases of Investments
 Proceeds from Sales and Maturities of Investments
 Interest on Investments and Cash Balances
 Interest Income from Securities Lending
 Interest Expense from Securities Lending

Net Cash Provided (Used) in Investing Activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning

Prior Period Adjustments Restating Beginning Cash Balances

Cash and Cash Equivalents - Ending

Business-type Activities - Enterprise Funds

| | Housing and Community Services | Veterans' Loan | Lottery Operations |
|-----------|--------------------------------------|-------------------|-----------------------|
| \$ 6,264 | \$ 3,239 | \$ 1,230,027 | |
| - | 640 | - | |
| 100,197 | 43,405 | - | |
| 73,408 | 19,408 | - | |
| - | - | - | |
| (6,143) | (5,930) | (33,851) | |
| (6,541) | (4,686) | (282,279) | |
| - | (433) | - | |
| - | - | (233,843) | |
| - | - | - | |
| (323,999) | (66,542) | - | |
| - | - | - | |
| (7,241) | 184 | - | |
| (164,055) | (10,715) | 680,054 | |
| 445,065 | 110,015 | - | |
| - | 30,000 | - | |
| (381,258) | (71,916) | - | |
| - | (59,836) | - | |
| (74,558) | (29,772) | - | |
| (72) | (722) | - | |
| (2,784) | (1,145) | - | |
| - | - | - | |
| - | - | - | |
| - | - | - | |
| - | - | 1,649 | |
| 4,647 | 399 | - | |
| - | - | (691,911) | |
| (8,960) | (22,977) | (690,262) | |
| - | - | - | |
| - | - | - | |
| - | - | - | |
| - | - | - | |
| - | - | - | |
| - | - | - | |
| - | (124) | (44,233) | |
| - | - | 247 | |
| - | - | - | |
| - | (124) | (43,986) | |
| (633,073) | (240,290) | (2,574) | |
| 774,609 | 225,065 | 14,333 | |
| 22,387 | 25,433 | 10,966 | |
| 1,570 | 7,324 | 5,699 | |
| (1,424) | (6,679) | (5,047) | |
| 164,069 | 10,853 | 23,377 | |
| (8,946) | (22,963) | (30,817) | |
| 77,443 | 489,814 | 302,940 | |
| - | - | (2,395) | |
| \$ 68,497 | \$ 466,851 | \$ 269,728 | |

State of Oregon

| Business-type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|--|------------------------------|--------------|--------------|---|
| Unemployment Compensation | University System | Other | Total | |
| \$ - | \$ 1,219,969 | \$ 485,349 | \$ 2,944,848 | \$ 56,724 |
| - | - | 218 | 858 | 299,706 |
| - | 12,787 | 64,334 | 220,723 | - |
| - | - | 26,245 | 119,061 | - |
| 628,921 | - | - | 628,921 | - |
| - | (1,138,163) | (193,357) | (1,377,444) | (124,338) |
| - | (430,733) | (313,957) | (1,038,196) | (133,328) |
| - | - | (6,379) | (6,812) | (30,615) |
| - | - | - | (233,843) | - |
| (654,152) | - | - | (654,152) | (11,695) |
| - | (86,388) | (105,877) | (582,806) | - |
| (13,645) | - | (43,412) | (57,057) | (103) |
| 39,066 | (12,302) | 6,629 | 26,336 | (27,383) |
| 190 | (434,830) | (80,207) | (9,563) | 28,968 |
| - | - | 18,000 | 573,080 | - |
| - | - | - | 30,000 | - |
| - | - | (41,686) | (494,860) | - |
| - | - | - | (59,836) | - |
| - | - | (16,425) | (120,755) | - |
| - | - | - | (794) | - |
| - | - | (27) | (3,956) | - |
| - | - | (67) | (67) | - |
| - | - | (4) | (4) | - |
| - | - | 16,125 | 16,125 | - |
| - | 103,957 | 17 | 105,623 | 363 |
| 4,208 | 454,011 | 187,766 | 651,031 | 3,549 |
| (41,074) | - | (122,264) | (855,249) | (7,377) |
| (36,866) | 557,968 | 41,435 | (159,662) | (3,465) |
| - | 294,053 | - | 294,053 | 7,075 |
| - | (72,984) | (1,103) | (74,087) | (24,030) |
| - | (52,647) | (439) | (53,086) | (9,945) |
| - | - | - | - | (144) |
| - | - | - | - | 24 |
| - | - | - | - | 45 |
| - | - | - | - | (28) |
| - | - | - | - | (19) |
| - | (215,701) | (3,053) | (263,111) | (43,492) |
| - | 33,376 | 188 | 33,811 | 902 |
| - | 48,714 | - | 48,714 | - |
| - | 34,811 | (4,407) | (13,706) | (69,612) |
| (176,145) | (310) | (45,233) | (1,097,625) | (82,804) |
| 370,657 | - | 46,233 | 1,430,897 | 69,234 |
| 97,307 | 35,753 | 8,719 | 200,565 | 8,487 |
| 22,080 | 7,010 | 1,456 | 45,139 | 3,523 |
| (20,916) | (6,378) | (1,329) | (41,773) | (3,221) |
| 292,983 | 36,075 | 9,846 | 537,203 | (4,781) |
| 256,307 | 194,024 | (33,333) | 354,272 | (48,890) |
| 1,879,263 | 621,924 | 256,714 | 3,628,098 | 107,916 |
| - | - | (1,021) | (3,416) | - |
| \$ 2,135,570 | \$ 815,948 | \$ 222,360 | \$ 3,978,954 | \$ 59,026 |

(continued on next page)

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2008

(In Thousands)

(continued from previous page)

Business-type Activities - Enterprise Funds

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

| | | | |
|--|-----------------|-----------------|------------------|
| Operating Income (Loss) | \$ 10,051 | \$ 8,444 | \$ 661,034 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation and Amortization | 17 | 160 | 30,843 |
| Amortization of Bond/COP Issuance Costs | 865 | - | - |
| Amortization of Bond/COP Premium and Discount | (476) | 27 | - |
| Amortization of Deferred Charges | (15) | 151 | - |
| Bad Debt Expense | (78) | - | - |
| Interest Income Reported as Operating Revenue | (30,603) | (33,153) | - |
| Investment Expense Reported as Operating Expense | 1,424 | 6,679 | - |
| Interest Payments Reported as Operating Expense | 77,848 | 27,551 | - |
| Bond/COP Issuance Costs Reported as Operating Expense | - | 1,092 | - |
| Net Changes in Assets and Liabilities: | | | |
| Accounts and Interest Receivable | (840) | (68) | (3,755) |
| Due from Other Funds | - | 10 | - |
| Due from Other Governments | - | - | - |
| Inventories | - | - | 103 |
| Prepaid Items | - | 24 | 427 |
| Foreclosed and Deeded Property | (345) | - | - |
| Deferred Charges | - | - | - |
| Advances to Other Funds | - | - | - |
| Loans Receivable | (222,836) | (23,237) | - |
| Net Contracts, Notes and Other Receivables | - | - | - |
| Accounts and Interest Payable | 267 | 1,401 | (179) |
| Due to Other Funds | - | - | - |
| Due to Other Governments | - | - | - |
| Trust Funds Payable | - | 183 | (11) |
| Unearned Revenue | 647 | - | - |
| Claims and Judgments Payable | - | - | - |
| Contracts, Mortgages and Notes Payable | - | - | - |
| Compensated Absences Payable | (9) | (12) | 281 |
| Lottery Prize Awards Payable | - | - | (8,880) |
| Net OPEB Obligation | 28 | 33 | 191 |
| Total Adjustments | (174,106) | (19,159) | 19,020 |
| Net Cash Provided (Used) by Operating Activities | \$ (164,055) | \$ (10,715) | \$ 680,054 |
| Noncash Investing and Capital and Related Financing Activities: | | | |
| Net Change in Fair Value of Investments | \$ 7,595 | \$ (397) | \$ 11,404 |
| Noncash Assets Exchanged for Other Noncash Assets | 5 | - | - |
| Capital Assets Transferred from Governmental Funds | - | - | - |
| Liabilities Transferred to Governmental Funds | - | - | - |
| Capital Leases Entered into During the Year | - | - | - |
| Assets Transferred to Governmental Funds | - | - | - |
| Capital Assets Contributed | - | - | - |
| Foreclosed Property | 1,938 | - | - |
| Total Noncash Investing and Capital and Related Financing Activities | \$ 9,538 | \$ (397) | \$ 11,404 |

The notes to the financial statements are an integral part of this statement.

State of Oregon

| Business-type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Funds | |
|--|--------------------------|--------------|--------------|---|----------|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 99,555 | \$ (559,513) | \$ (54,676) | \$ 164,895 | \$ | (2,943) |
| - | 91,724 | 4,319 | 127,063 | | 34,775 |
| - | - | 308 | 1,173 | | - |
| - | - | (38) | (487) | | (804) |
| - | - | 96 | 232 | | 308 |
| - | - | 1,902 | 1,824 | | - |
| (98,819) | - | (8,788) | (171,363) | | - |
| 798 | - | 15 | 8,916 | | 3,221 |
| - | 53,071 | 17,089 | 175,559 | | 9,945 |
| - | - | 27 | 1,119 | | 144 |
| (1,383) | (37,307) | (3,360) | (46,713) | | (14,026) |
| 96 | - | 1,173 | 1,279 | | (1,840) |
| 628 | - | (2) | 626 | | - |
| - | (92) | (2,112) | (2,101) | | (398) |
| - | (5,045) | (41) | (4,635) | | 29 |
| - | - | - | (345) | | - |
| - | - | (65) | (65) | | (86) |
| - | - | (4,240) | (4,240) | | - |
| - | - | (37,206) | (283,279) | | - |
| (2,563) | 915 | 352 | (1,296) | | 1,066 |
| - | 4,907 | 4,821 | 11,217 | | 2,044 |
| - | - | (1,144) | (1,144) | | 1,180 |
| 821 | - | 30 | 851 | | - |
| - | 9 | (511) | (330) | | (48,891) |
| - | 12,393 | 113 | 13,153 | | 27,003 |
| - | - | - | - | | 17,161 |
| 1,057 | 4,108 | - | 5,165 | | (364) |
| - | - | 638 | 898 | | 884 |
| - | - | - | (8,880) | | - |
| - | - | 1,093 | 1,345 | | 560 |
| (99,365) | 124,683 | (25,531) | (174,458) | | 31,911 |
| \$ 190 | \$ (434,830) | \$ (80,207) | \$ (9,563) | \$ | 28,968 |
| \$ 1,794 | \$ (19,330) | \$ (6) | \$ 1,060 | \$ | 592 |
| - | - | - | 5 | | - |
| - | - | - | - | | 77 |
| - | - | (1,259) | (1,259) | | - |
| - | 78 | - | 78 | | - |
| - | - | 876 | 876 | | (17) |
| - | 7,165 | - | 7,165 | | 24 |
| - | - | - | 1,938 | | - |
| \$ 1,794 | \$ (12,087) | \$ (389) | \$ 9,863 | \$ | 676 |

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008
(In Thousands)

| | Pension and Other Employee Benefit Trust | Private Purpose Trust | Investment Trust | Agency |
|---|---|--------------------------------------|-----------------------------|------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 646,574 | \$ 30,132 | \$ 4,025,189 | \$ 78,752 |
| Investments: | | | | |
| Fixed Income | 18,391,468 | 381 | - | - |
| Equity | 26,846,675 | 890 | - | - |
| Real Estate | 5,365,989 | - | - | - |
| Alternative Equity | 10,504,724 | - | - | - |
| Total Investments | 61,108,856 | 1,271 | - | - |
| Cash and Securities Held in Trust | - | 97 | - | 1,556,676 |
| Securities Lending Cash Collateral | 4,677,862 | 16,503 | 2,021,404 | - |
| Receivables: | | | | |
| Employer Contributions | 22,662 | - | - | - |
| Plan Member Contributions | 10,601 | - | - | - |
| Interest and Dividends | 229,780 | - | 17,205 | - |
| Investment Sales | 3,178,419 | - | - | - |
| Accounts | - | 1,139 | - | 5,696 |
| From Other Funds | 1,260 | - | - | - |
| Total Receivables | 3,442,722 | 1,139 | 17,205 | 5,696 |
| Prepaid Items | 2,184 | - | - | - |
| Net Contracts, Notes and Other Receivables | - | 63 | - | 76,454 |
| Conservatorship and Custodial Assets | - | 3,751 | - | 72 |
| Receivership Assets | - | - | - | 70,652 |
| Loans Receivable | - | - | 5,090 | - |
| Capital Assets (net of accumulated depreciation): | | | | |
| Land | 944 | 14 | - | - |
| Buildings, Property and Equipment | 11,029 | - | - | - |
| Total Assets | 69,890,171 | 52,970 | 6,068,888 | 1,788,302 |
| LIABILITIES | | | | |
| Accounts and Interest Payable | 3,426,763 | 50 | 49 | 5 |
| Obligations Under Securities Lending | 4,677,862 | 16,503 | 2,021,404 | - |
| Obligations Under Reverse Repurchase Agreements | 291,036 | - | - | - |
| Due to Other Funds | 1,260 | 800 | - | - |
| Due to Other Governments | - | 47 | - | 2,812 |
| Bonds/COPS Payable | 7,108 | - | - | - |
| Trust Funds Payable | 75,386 | 1,475 | - | - |
| Custodial Liabilities | - | - | - | 1,785,485 |
| Deferred Revenue | 911 | - | - | - |
| Contracts, Mortgages and Notes Payable | - | 1,928 | - | - |
| Net OPEB Obligation | 147 | - | - | - |
| Total Liabilities | 8,480,473 | 20,803 | 2,021,453 | 1,788,302 |
| NET ASSETS | | | | |
| Held in Trust for: | | | | |
| Pension Benefits | 60,234,561 | - | - | - |
| Other Postemployment Benefits | 245,068 | - | - | - |
| Other Employee Benefits | 930,069 | - | - | - |
| External Investment Pool Participants | - | - | 4,047,435 | - |
| Individuals, Organizations and Other Governments | - | 32,167 | - | - |
| Total Net Assets | \$ 61,409,698 | \$ 32,167 | \$ 4,047,435 | \$ - |

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008
(In Thousands)

| | Pension and Other Employee Benefit Trust | Private Purpose Trust | Investment Trust |
|---|---|--------------------------------------|-----------------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ 792,739 | \$ - | \$ - |
| Plan Members | 651,870 | - | - |
| Total Contributions | 1,444,609 | - | - |
| Investment Income: | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | (4,244,136) | - | - |
| Interest, Dividends and Other Investment Income | 1,865,810 | 1,628 | 258,802 |
| Total Investment Income | (2,378,326) | 1,628 | 258,802 |
| Less Investment Expense | 566,406 | 354 | 71,300 |
| Net Investment Income | (2,944,732) | 1,274 | 187,502 |
| Gifts, Grants and Contracts | - | 1,070 | - |
| Income of Individuals in State Care | - | 3,520 | - |
| Veterans' Income | - | 6,694 | - |
| Other Income | 1,357 | 565 | - |
| Share Transactions: | | | |
| Participant Contributions | - | - | 19,216,700 |
| Participant Withdrawals | - | - | 18,828,528 |
| Net Share Transactions | - | - | 388,172 |
| Transfers from Other Funds | - | 497 | - |
| Total Additions | (1,498,766) | 13,620 | 575,674 |
| DEDUCTIONS | | | |
| Pension Benefits | 2,812,351 | - | - |
| Death Benefits | 11,432 | - | - |
| Contributions Refunded | 50,661 | - | - |
| Healthcare Premium Subsidies | 29,530 | - | - |
| Distributions to Other Governments | - | 48 | - |
| Distributions to Participants | - | - | 204,623 |
| Retiree Healthcare Expenses | 101,781 | - | - |
| Deferred Compensation Benefits | 50,366 | - | - |
| Administrative Expenses | 44,749 | 7,677 | - |
| Payments in Accordance with Trust Agreements | - | 7,355 | - |
| Total Deductions | 3,100,870 | 15,080 | 204,623 |
| Change in Net Assets Held in Trust For: | | | |
| Pension Benefits | (4,534,078) | - | - |
| Other Postemployment Benefits | (11,520) | - | - |
| Other Employee Benefits | (54,038) | - | - |
| External Investment Pool Participants | - | - | 371,051 |
| Individuals, Organizations and Other Governments | - | (1,460) | - |
| Net Assets - Beginning | 66,009,334 | 33,627 | 3,676,384 |
| Net Assets - Ending | \$ 61,409,698 | \$ 32,167 | \$ 4,047,435 |

The notes to the financial statements are an integral part of this statement.

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Combining Balance Sheet
Discretely Presented Component Units
June 30, 2008
(In Thousands)

| | SAIF Corporation | Oregon Health and Science University | Oregon University System Foundations | Total |
|--|---------------------|--|---|---------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 39,862 | \$ 62,986 | \$ 37,996 | \$ 140,844 |
| Investments | 3,597,781 | 83,260 | - | 3,681,041 |
| Securities Lending Cash Collateral | 570,060 | - | - | 570,060 |
| Accounts and Interest Receivable (net) | 377,637 | 214,865 | - | 592,502 |
| Pledges, Contributions and Grants Receivable (net) | - | 10,661 | 252,710 | 263,371 |
| Due from Primary Government | 144 | 9,795 | - | 9,939 |
| Inventories | 75 | 12,115 | - | 12,190 |
| Prepaid Items | 8,172 | 10,626 | 34,171 | 52,969 |
| Total Current Assets | 4,593,731 | 404,308 | 324,877 | 5,322,916 |
| Noncurrent Assets: | | | | |
| Investments | - | 439,643 | - | 439,643 |
| Investments - Restricted | - | 435,978 | 1,181,254 | 1,617,232 |
| Deferred Charges | - | 8,099 | - | 8,099 |
| Pledges, Contributions and Grants Receivable (net) | - | 19,107 | - | 19,107 |
| Capital Assets: | | | | |
| Land | 3,029 | 59,875 | - | 62,904 |
| Buildings, Property and Equipment | 46,260 | 1,710,744 | 59,511 | 1,816,515 |
| Construction in Progress | - | 54,308 | - | 54,308 |
| Less Accumulated Depreciation and Amortization | (29,623) | (728,166) | (11,064) | (768,853) |
| Total Noncurrent Assets | 19,666 | 1,999,588 | 1,229,701 | 3,248,955 |
| Total Assets | \$ 4,613,397 | \$ 2,403,896 | \$ 1,554,578 | \$ 8,571,871 |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities: | | | | |
| Accounts and Interest Payable | \$ 42,942 | \$ 127,606 | \$ 9,815 | \$ 180,363 |
| Reserve for Loss and Loss Adjustment Expense | 213,498 | - | - | 213,498 |
| Obligations Under Securities Lending | 570,060 | - | - | 570,060 |
| Due to Other Governments | 3,755 | 8,330 | - | 12,085 |
| Due to Primary Government | 15,088 | 2,268 | 8,976 | 26,332 |
| Obligations Under Capital Lease | - | 1,494 | - | 1,494 |
| Bonds/COPS Payable | - | 6,023 | - | 6,023 |
| Claims and Judgments Payable | - | 37,729 | - | 37,729 |
| Trust Funds Payable | - | - | 13,759 | 13,759 |
| Unearned Revenue | 248,034 | 41,896 | - | 289,930 |
| Compensated Absences Payable | 2,812 | 44,378 | - | 47,190 |
| Contracts, Mortgages and Notes Payable | - | 1,657 | - | 1,657 |
| Total Current Liabilities | 1,096,189 | 271,381 | 32,550 | 1,400,120 |
| Noncurrent Liabilities: | | | | |
| Bonds/COPS Payable | - | 520,232 | 60,260 | 580,492 |
| Obligations Under Capital Lease | - | 6,746 | - | 6,746 |
| Obligations Under Life Income Agreements | - | 20,509 | 77,238 | 97,747 |
| Obligations to Primary Government | - | 1,951 | - | 1,951 |
| Advances from Primary Government | - | 26,487 | - | 26,487 |
| Reserve for Loss and Loss Adjustment Expense | 2,591,867 | - | - | 2,591,867 |
| Claims and Judgments Payable | - | 51,879 | - | 51,879 |
| Net OPEB Obligation | 244 | 1,335 | - | 1,579 |
| Contracts, Mortgages and Notes Payable | - | 29,855 | - | 29,855 |
| Total Noncurrent Liabilities | 2,592,111 | 658,994 | 137,498 | 3,388,603 |
| Total Liabilities | 3,688,300 | 930,375 | 170,048 | 4,788,723 |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 19,666 | 549,608 | - | 569,274 |
| Expendable Restricted Net Assets: | | | | |
| Restricted for Workers' Compensation | 905,431 | - | - | 905,431 |
| Restricted for Education | - | 298,361 | 703,591 | 1,001,952 |
| Nonexpendable Restricted Net Assets: | | | | |
| Restricted for Donor Purposes | - | - | 620,164 | 620,164 |
| Restricted for Education | - | 130,326 | - | 130,326 |
| Unrestricted | - | 495,226 | 60,775 | 556,001 |
| Total Net Assets | 925,097 | 1,473,521 | 1,384,530 | 3,783,148 |
| Total Liabilities and Net Assets | \$ 4,613,397 | \$ 2,403,896 | \$ 1,554,578 | \$ 8,571,871 |

The notes to the financial statements are an integral part of this statement.

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2008
(In Thousands)**

| | SAIF Corporation | Oregon Health and Science University | Oregon University System Foundations |
|---|---------------------|--|--|
| Operating Revenues: | | | |
| Charges for Services | \$ - | \$ 934,371 | \$ - |
| Sales | - | 29,029 | - |
| Premiums Earned (net) | 459,977 | - | - |
| Investment Income (net) | - | - | (10,066) |
| Gifts, Grants and Contracts | - | 476,172 | 354,406 |
| Auxiliary Enterprises (net) | - | 13,809 | - |
| Other | 20,267 | 50,212 | 17,197 |
| Total Operating Revenues | 480,244 | 1,503,593 | 361,537 |
| Operating Expenses: | | | |
| Salaries and Wages | - | 848,418 | - |
| Services and Supplies | - | 528,794 | 193,329 |
| Loss and Loss Adjustment Expense | 435,297 | - | - |
| Policyholders' Dividends | 59,979 | - | - |
| Underwriting Expenses | 88,972 | - | - |
| Bond and COP Interest | - | 27,576 | - |
| Depreciation and Amortization | - | 87,275 | - |
| Bad Debt Expense | - | 51,179 | - |
| Other Expenses | - | - | 15,195 |
| Total Operating Expenses | 584,248 | 1,543,242 | 208,524 |
| Operating Income (Loss) | (104,004) | (39,649) | 153,013 |
| Nonoperating Revenues (Expenses): | | | |
| Investment Income | 178,251 | 33,140 | - |
| Other | - | 6,027 | - |
| State Appropriations | - | 42,810 | - |
| Total Nonoperating Revenues (Expenses) | 178,251 | 81,977 | - |
| Income (Loss) Before Capital Contributions and Transfers | 74,247 | 42,328 | 153,013 |
| Capital Contributions | - | 6,847 | 748 |
| Change in Net Assets | 74,247 | 49,175 | 153,761 |
| Net Assets - Beginning | 850,850 | 1,424,346 | 1,230,953 |
| Prior Period Adjustments | - | - | (184) |
| Net Assets - Beginning - As Restated | 850,850 | 1,424,346 | 1,230,769 |
| Net Assets - Ending | \$ 925,097 | \$ 1,473,521 | \$ 1,384,530 |

The notes to the financial statements are an integral part of this statement.

| Total | Adjustments to Recast | Statement of Activities |
|--------------|-----------------------|-------------------------|
| \$ 934,371 | \$ 590,491 | \$ 1,524,862 |
| 29,029 | (29,029) | - |
| 459,977 | (459,977) | - |
| (10,066) | 10,066 | - |
| 830,578 | 244,135 | 1,074,713 |
| 13,809 | (13,809) | - |
| 87,676 | (87,676) | - |
| 2,345,374 | 254,201 | 2,599,575 |
| 848,418 | - | 848,418 |
| 722,123 | - | 722,123 |
| 435,297 | - | 435,297 |
| 59,979 | - | 59,979 |
| 88,972 | - | 88,972 |
| 27,576 | - | 27,576 |
| 87,275 | - | 87,275 |
| 51,179 | - | 51,179 |
| 15,195 | (6,027) | 9,168 |
| 2,336,014 | (6,027) | 2,329,987 |
| 9,360 | 260,228 | 269,588 |
| 211,391 | (211,391) | - |
| 6,027 | (6,027) | - |
| 42,810 | (42,810) | - |
| 260,228 | (260,228) | - |
| 269,588 | - | 269,588 |
| 7,595 | - | 7,595 |
| 277,183 | - | 277,183 |
| 3,506,149 | - | 3,506,149 |
| (184) | - | (184) |
| 3,505,965 | - | 3,505,965 |
| \$ 3,783,148 | \$ - | \$ 3,783,148 |

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The State of Oregon (State) was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. The accompanying financial statements present the State, which includes all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or entities that warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government.

Blended Component Unit

Although legally separate entities, component units that are in substance part of the government's operations are reported as part of the primary government through a blended presentation.

The Home Care Commission (Commission) is a blended component unit of the State of Oregon included within the financial activity of the Department of Human Services. The Commission is an independent public commission consisting of nine members appointed by the Governor and confirmed by the Senate. It is responsible for ensuring the quality of home care services that the Department of Human Services provides for seniors and people with disabilities. The Commission establishes qualifications of home care workers and provides them training opportunities, maintains a statewide registry of home care workers, and provides referrals to the elderly and disabled who need services.

Discretely Presented Component Units

The State's discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State. The component unit column in the government-wide financial statements includes the data of the State's three discretely presented component units.

SAIF Corporation (SAIF) is a public corporation, created by an act of the Legislature, which is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor and is financed solely through policyholder premiums and investment income. The term of office for a Board member is four years, but a member serves at the pleasure of the Governor. SAIF reports on a fiscal year ended December 31 and uses proprietary fund accounting principles. The December 31, 2007, financial information of SAIF is included in this report.

The Oregon Health and Science University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives general fund monies from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to July 1, 1995, when OHSU became an independent public corporation. OHSU uses proprietary fund accounting principles.

The Oregon University System (OUS) Foundations are not-for-profit corporations that provide assistance in fundraising, public out reach, and other support for the missions of Oregon's seven public universities. The OUS foundations report under Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The OUS foundations are component units of the Oregon University System, a proprietary fund of the State, because the majority of resources that each foundation holds and invests can only be used by, or for the benefit of, the OUS universities. Combined, the foundations are discretely presented as a component unit of the State.

Complete financial statements for SAIF, OHSU, and OUS may be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, the Landscape Contractors Board, the Wine Board and the Patient Safety Commission. Although the Governor appoints the administrators of these boards, the boards are all self-supporting. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent nonprofit public corporation. Although the Governor appoints members to OUNC's board of directors, OUNC is funded through fees paid by operators of underground utilities who subscribe to OUNC. The OUNC receives no general fund monies, and the State has no financial accountability for OUNC.

B. Government-wide and Fund Financial Statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been eliminated from these statements through consolidation, except for interfund activity that represents a true exchange of goods and services between funds. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Interfund activity within governmental and within business-type activities has been eliminated through consolidation; however, balances due and resource flows between governmental and business-type activities have not been eliminated. The *primary government* is reported separately from its *component units*.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Included in direct expenses are administrative overhead charges for centralized services charged to functions through internal service funds. *Program revenues* include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, (2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and (3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements with the exception of agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Income taxes are recognized as revenue, net of estimated refunds, in the year when the underlying exchange (earning of income) has occurred, to the extent such amounts are measurable. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Income tax revenue, net of estimated refunds, is recognized in the fiscal year in which the underlying exchange has occurred and it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant eligibility

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requirements have been met. Revenue items not susceptible to accrual are considered to be measurable and available only when cash is received; for example, license and fee revenue, the principal portion of loan repayments, and cash sales of goods and services.

Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, tobacco taxes, healthcare provider taxes, and charges for services.

The *Public Transportation Fund* accounts for the planning, design, construction, and maintenance of highways, roads, bridges, and public systems relating to air, water, rail, and highway transportation. Funding is provided from dedicated highway user taxes and vehicle registration taxes, in addition to various federal highway administration funds.

The *Environmental Management Fund* accounts for programs that promote, protect, and preserve the State's forests, parks, wildlife, fish, and waterways. The main funding sources for these programs are usage fees, federal grants, and sales revenue.

The *Common School Fund* accounts for programs to manage state-owned land, including a leasing program that generates annual revenues, for the benefit of the public school system. Estate funds that become the property of the State, unclaimed property, and income derived from unclaimed property are also accounted for in this fund. Assets of the fund, including investment income, are dedicated through statutory, as well as constitutional provisions, to be used for common school purposes. Constitutionally dedicated assets of the Common School Fund represent a trust created to support the State's public school system. The primary funding sources for these programs include investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

The *Oregon Rainy Day Fund* accounts for resources that have been transferred from the General Fund in accordance with state law. These resources, along with investment income generated, can be appropriated by the Legislature only when certain criteria related to economic or revenue conditions have been met.

The State reports the following major proprietary (enterprise) funds:

The *Housing and Community Services Fund* accounts for activities that finance multi-family rental housing and single-family mortgages for low to moderate income families. Mortgage loans related to these activities are financed with the proceeds of bonds issued under various bond indentures of trust. Mortgage loan payments and interest earnings on invested bond proceeds are used to pay debt service on the bonds.

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

The *Lottery Operations Fund* accounts for the operation of the Oregon State Lottery which markets and sells Lottery products to the public. The primary objective of the Oregon State Lottery is to produce the maximum amount of net revenues to be used for creating jobs, furthering economic

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development, financing public education, and restoring and protecting Oregon's parks, beaches, watersheds, and critical fish and wildlife habitats.

The *Unemployment Compensation Fund* accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed.

The *University System Fund* accounts for the operations of Oregon's seven public universities, including the Chancellor's Office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

Additionally, the State reports the following fund types:

The *Internal Service Funds* account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis. These include central services such as accounting, budgeting, personnel, mail, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund. Legal, banking, and audit services are also accounted for in internal service funds.

The *Pension and Other Employee Benefit Trust Funds* account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members and beneficiaries of the retirement system.

The *Private Purpose Trust Funds* account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds, investment trust funds or special revenue funds, under which principal and income benefit individuals, private organizations, or other governments.

The *Investment Trust Fund* accounts for the portion of the Oregon Short-term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the Office of the State Treasurer, which is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State.

The *Agency Fund* accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds. However, neither the primary government, nor its component units, currently applies private sector guidance issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The primary operating revenues for the State's enterprise funds and internal service funds include assessments, charges for services, sales revenue, and grants. For the Unemployment Compensation Fund and for those enterprise funds for which the principal activity is lending, investment income is also reported as operating revenue. The primary operating expenses for enterprise funds and internal service funds include salaries and wages, services and supplies, and special payments. Bond costs, including bond interest expense, are reported as operating transactions within those funds for which lending is the primary activity. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Deposits and Investments

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the Office of the State Treasurer in the Oregon Short-term Fund, cash deposits held in demand deposit accounts with custodial banks, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.
- Investments in the Oregon Short-term Fund with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets, but as investments in Note 2.
- Agency-specific investments not held in the Oregon Short-term Fund with remaining maturities of up to ninety days are reported at amortized cost.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued using evaluated bid prices. A small percentage of debt securities cannot be priced in this manner and, for these, a similar benchmark security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar, considering current market conditions.

Investments in private equities are reported at values provided by the general partners which are March 31, 2008 cash adjusted, not a June 30th valuation. Investments in private equities representing publicly traded securities are stated at the quoted market price. In establishing the estimated fair value of investments without readily determinable market values, the general partners assume a reasonable period of time for liquidation of the investments and take into consideration the financial condition and operating results of the underlying portfolio companies, their historical cost, prices of recent public or private transactions in similar companies, the nature of the investments, restrictions on marketability, holding periods, cash flows, market conditions, foreign currency and interest rate exposures, and other factors deemed appropriate.

Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals conducted every two to three years. Between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Investments in real estate partnerships are reported at values provided by general partners. In the absence of observable market prices, general partners determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

Due to the inherent uncertainty and the degree of judgment involved in determining private equity and real estate valuations, the estimated fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments, and the recorded estimated fair values may materially differ from the amounts that eventually may be realized from the sale or other disposition of these investments.

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Derivatives

In accordance with State investment policies, the Office of the State Treasurer invests either directly or through outside investment managers on behalf of the State in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios.

E. Receivables and Payables. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Trade receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Income tax receivables deemed reasonably estimable are reported, net of estimated uncollectible amounts, in the fiscal year when the underlying exchange has occurred. Income tax receivables that may arise in the future from audits of prior years and discovery of non-filers are not included in receivables or revenues in the financial statements because these transactions are not measurable.

F. Intrafund Transactions. Intrafund balances (due to/from other funds and advances to/from other funds) and intrafund activity (transfers to/from other funds) within a major fund column in the fund financial statements have been eliminated.

G. Inventories. Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are not available for appropriation. In proprietary funds, inventories are expended when consumed rather than when purchased. OHSU records inventories at the lower of cost or market, with the majority accounted for under the first-in-first-out method.

H. Prepaid Items. Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items in both government-wide and fund financial statements. In governmental funds, prepaid items are accounted for using the consumption method and a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

I. Restricted Assets. Certain proceeds of the State’s bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net assets because these resources are segregated and their use is limited by applicable bond covenants or COP financing agreements. Generally, this includes cash and investments set aside for current and future debt service payments.

J. Foreclosed and Deeded Properties. Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value.

K. Receivership Assets. Net assets of insurance companies that have been placed into receivership under the control of the Department of Consumer and Business Services in accordance with Oregon Revised Statutes are recorded as receivership assets.

L. Capital Assets. Capital assets, which include property, equipment, and infrastructure assets (i.e., highways, tunnels, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the State as assets with an initial cost of \$5,000 or more and an estimated useful life of at least one year. Such assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is reported. The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend asset lives are expensed rather than capitalized.

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as its component units, are depreciated over their estimated useful lives using the straight-line method, unless they are considered inexhaustible. Useful lives for buildings and related assets range from 10 to 75 years, while useful lives of equipment and machinery range from 3 to 50 years. For infrastructure assets, useful lives range from 5 to 75 years, with docks, dikes and dams having useful lives between 30 to 50 years. Useful lives for works of art and historical treasures range from 10 to 30 years, and useful lives for motor vehicles range from 3 to 30 years. Data processing software and hardware have useful lives ranging from 3 to 10 years.

M. Compensated Absences. Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for compensated absences is reported in governmental funds only if the liabilities have matured, for example, as the result of employee resignations and retirements.

N. Long-term Obligations. In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt using the effective interest method or the bonds outstanding method. Bonds/COP payable is reported net of the applicable bond/COP premium or discount. Bond/COP issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond/COP premiums and discounts, as well as bond/COP issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

In the government-wide statement of net assets and the proprietary fund balance sheet, fund equity (referred to as net assets) is reported in three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Restricted net assets result from restrictions imposed on a portion of net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available for use, it is the discretion of the individual state agencies whether to use restricted resources first, then unrestricted resources as they are needed, or to use unrestricted resources first, then restricted resources.

P. Changes in Accounting Principles. During the fiscal year ended June 30, 2008, the State adopted several new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, establishes standards for the measurement, recognition, and disclosure of OPEB expenses/expenditures and related liabilities (assets) when postemployment benefits are provided separately from a pension plan. Implementation of this standard resulted in recognition of a net OPEB obligation of \$20.3 million at June 30, 2008. Additional information, including the funded status of the State's three OPEB plans, is disclosed in Note 14.

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GASB Statement No. 47, *Accounting for Termination Benefits*, establishes measurement, recognition, and disclosure requirements for both voluntary and involuntary termination benefits. For termination benefits provided through an existing OPEB plan, the provisions of Statement No. 47 were implemented simultaneously with the requirements of Statement No. 45. The implementation of Statement No. 47 had no impact on the financial statements. Information about termination benefits is disclosed in Note 16.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, addresses transactions in which governments exchange an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This Statement establishes criteria to determine whether the transaction should be treated as a sale or a collateralized borrowing. The Statement also requires disclosures pertaining to future revenues that have been pledged or sold. The State does not sell receivables. However, it does pledge revenues for repayment of lottery revenue bonds and highway user tax revenue bonds. Information about pledged revenues is presented in Note 10.

GASB Statement No. 50, *Pension Disclosures*, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). Implementation of this accounting standard had no impact on the State's financial statements.

Q. Pending Accounting Changes. The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective in fiscal year 2009. This Statement establishes accounting and financial reporting standards for pollution remediation obligations. These obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The State is currently evaluating the impact of GASB Statement No. 49 on the financial statements.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies between state and local governments and to enhance comparability of the accounting and financial reporting of such assets. This Statement provides guidance specific to the recognition, initial measurement, and amortization of intangible assets. Statement No. 51 is effective in fiscal year 2010. The State is currently evaluating the impact of this standard on the financial statements.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, requires that land and other real estate held as investments by endowments be reported at fair market value. Endowments include permanent and term endowments, and permanent funds. The standard does not apply to lands granted by the Federal government in connection with a state being admitted to the United States or to quasi-endowments. The implementation date for this standard is fiscal year 2009. The State is currently evaluating the impact of Statement No. 52 on the financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes the criteria for measurement, recognition, and disclosure of information regarding derivative instruments entered into by state and local governments. Statement No. 53 is effective in fiscal year 2010. The State is currently evaluating the impact of this standard on the financial statements.

2. DEPOSITS AND INVESTMENTS

The State's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit with the Office of the State Treasurer (Treasury). In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. The Treasurer is authorized to use demand deposit accounts and fixed-income investments and also has the authority to direct equity investment transactions, although these transactions are currently directed by external investment managers under contract with the Council. Furthermore, equity investments are limited to not more than 50 percent of the monies contributed to the Oregon Public Employees Retirement Fund (OPERF) or the Industrial Accident Fund (SAIF Corporation), and not more than 65 percent of the other trust and endowment funds managed by the Council or the Treasury.

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The Deferred Compensation Fund, the Education Stability Fund, the State Board of Higher Education, and the Oregon Health and Science University (OHSU) may also invest in equities.

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State. The portion of the pool belonging to local governments is reported in the investment trust fund. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the financial statements as cash and cash equivalents. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained from the Office of the State Treasurer, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from their website at: <http://www.ost.state.or.us/divisions/investment/index.htm#fund>.

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. The Treasury's direct investments in short-term securities are limited by portfolio rules established by the OSTF Board and the Council. Other investments are made directly by state agencies with the approval of the Treasurer.

A. Custodial Credit Risk

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State's deposits may not be recovered, or the State will not be able to recover collateral securities that are in the possession of an outside party. The State does not have a formal policy regarding custodial credit risk for deposits. However, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and Oregon law.

Monies in the OSTF are held in demand deposit accounts and time certificates of deposits. Where balances continually exceed \$100,000, Oregon Revised Statute (ORS) 295.002 requires the depositor to obtain certificates of participation in the amount of the excess deposits from its pool manager. ORS 295.001 provides that the pool manager can be the Treasury, an insured bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank. Barring any exceptions, a bank depository is required to pledge collateral with a value of at least 10 percent of their quarter-end public fund deposits if they are well capitalized, 25 percent of their quarter-end public fund deposits if they are adequately capitalized, or 110 percent of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110 percent by the Treasury. There are three exceptions to this calculation, and any exception is required to be collateralized at 100 percent.

1. A bank may not accept public fund deposits from one depositor in excess of the bank's net worth. If the bank has a drop in net worth that takes it out of compliance, the bank is required to post 100 percent collateral on any amount the depositor has in excess of the bank's net worth while working to eliminate that excess.
2. A bank may not hold aggregate public funds in excess of a percentage of the bank's net worth based on its capitalization category (100 percent for undercapitalized, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved, for a period of 90 days or less, by the Treasury.
3. A bank may only hold in excess of 30 percent of all aggregate public funds reported by all banks holding Oregon public funds if the excess is collateralized at 100 percent.

Deposits in the OSTF in excess of FDIC coverage and the State's statutory collateralization requirement are not collateralized and are uninsured. These deposits are considered exposed to custodial credit risk.

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As of June 30, 2008, bank balances of \$91.9 million of the primary government and its discretely presented component units' deposits were exposed to custodial credit risk as follows (in thousands):

| | Primary Government | Discretely Presented Component Units | Total |
|---|-----------------------|--|------------------|
| Uninsured and uncollateralized | \$ 45,171 | \$ 35,546 | \$ 80,717 |
| Uninsured and collateralized by the pledging bank's trust department, but not in the State's name | 11,187 | - | 11,187 |
| Total | <u>\$ 56,358</u> | <u>\$ 35,546</u> | <u>\$ 91,904</u> |

Included in these deposits are the following amounts held in institutions other than Treasury-qualified depositories that are exposed to custodial credit risk:

- Bond and COP trustees held \$7.3 million of unregistered and uninsured monies with securities held by the counterparty, or by the counterparty's trust department or agent, but not in the State's name.
- Fiscal Agents held \$7.4 million of deposits for redemption of the State's bonds and coupons that have matured, but have not yet been redeemed. Bondholders are covered by the FDIC for up to \$100,000. Of the total deposits, \$3.3 million are uninsured and uncollateralized.

Custodial Credit Risk for Investments

Custodial credit risk for investments of the primary government is the risk that, in the event of the failure of the counterparty to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Council has no formal policy regarding the holding of securities by a custodian or counterparty. No investment holdings of SAIF Corporation or Oregon Health and Science University were exposed to custodial credit risk. As of June 30, 2008, \$1.2 billion of investments for the primary government were exposed to custodial credit risk because the securities were held by a custodial agent and were not registered in the State's name nor insured (in thousands):

| Investment Type | Carrying Value |
|------------------------------|---------------------|
| Domestic Equity | \$ 949,700 |
| Money Market Fund | 121,800 |
| Time Certificates of Deposit | 108,300 |
| U.S. Agency Securities | 14,556 |
| Total | <u>\$ 1,194,356</u> |

B. Investments – Primary Government Excluding the Oregon Public Employees Retirement Fund

Investments of the primary government (excluding the OPERF) held by the Treasurer require the exercise of prudent and reasonable care in the context of the fund's investment portfolio and as part of an overall investment strategy. The Treasurer is required to diversify investments unless it is not prudent to do so. In addition, the Treasurer must exercise reasonable care to incorporate risk and return objectives reasonably suitable to the particular investment fund. Each Treasury fund has a policy and procedure that addresses objectives and strategies. For investments held outside of the Treasury, statutes govern the placement of funds with outside parties as part of trust agreements or mandatory asset holdings by regulatory agencies.

Interest Rate Risk

Investment policy for fixed income investments under the direct management of the Treasurer generally limits the time horizon of the portfolio to an average maturity of 1 to 5 years. In addition, externally-managed fixed income investment funds are required by policy to maintain an average bond duration level within 20 percent of the benchmark bond index. For investments not under the management of the Treasurer, there are no formal policies on interest rate risk. Investment objectives and strategies of the primary government (excluding the OPERF) are based on credit quality, asset diversification, and staggered maturities.

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For variable rate securities, the next interest rate reset date is used instead of the maturity date.

The following table presents the interest rate risk information for investments of the primary government (excluding the OPERF) using the segmented time distribution method as of June 30, 2008 (in thousands):

| Investment Type | Schedule of Interest Rate Risk | | | | |
|---|----------------------------------|--------------|------------|--------------|--------------|
| | Investment Maturities (in years) | | | | Fair Value |
| | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | |
| U.S. Treasury Securities | \$ 83,587 | \$ 194,491 | \$ 88,111 | \$ 80,109 | \$ 446,298 |
| U.S. Treasury Strips | 9,978 | 24,588 | 17,291 | 21,563 | 73,420 |
| U.S. Treasury Receipts | 2,784 | - | - | - | 2,784 |
| U.S. Agency Securities | 558,545 | 374,716 | 47,804 | 83,439 | 1,064,504 |
| U.S. Agency Strips | 1,871 | 22,471 | 12,185 | 2,462 | 38,989 |
| U.S. Agency Mortgage Securities | 739 | - | - | 55,900 | 56,639 |
| International Debt Securities | 205 | 1,058 | 1,570 | 2,956 | 5,789 |
| Commercial Paper | 1,579,867 | - | - | - | 1,579,867 |
| Corporate Bonds | 2,892,495 | 263,100 | 21,722 | 9,610 | 3,186,927 |
| Municipal Bonds | 16,016 | 187,821 | 205,715 | 625,490 | 1,035,042 |
| Collateralized Mortgage Obligations | 19,038 | - | - | 6,049 | 25,087 |
| Asset-Backed Securities | 4,156 | 370 | - | 1,049 | 5,575 |
| Time Certificates of Deposit | 151,722 | 1,454 | - | - | 153,176 |
| Money Market Fund | 1,604 | - | - | - | 1,604 |
| Guaranteed Investment Contracts | 54,229 | 100,184 | 31,326 | 22,226 | 207,965 |
| Annuity Contracts | - | - | - | 370 | 370 |
| Mutual Funds – Domestic Fixed Income | - | 167,022 | 20,850 | - | 187,872 |
| Mutual Funds – International Fixed Income | - | 3,392 | 2,524 | - | 5,916 |
| Total Debt Investments | \$ 5,376,836 | \$ 1,340,667 | \$ 449,098 | \$ 911,223 | \$ 8,077,824 |

Included in the schedule above are fixed income mutual funds reported using the duration method instead of average maturity: Domestic, \$187.9 million and International, \$5.9 million. In addition, the schedule above includes \$3.1 billion in interest-rate sensitive securities. The terms and relevant indexes of these interest-rate sensitive securities include the following: 85.4 percent and 13.2 percent are indexed to the three-month and one-month London Interbank Offered Rate (LIBOR), respectively. The remaining securities use different indexes or contain other variable rate features.

Credit Risk

Investment policy for fixed income investments under the management of the Treasurer require that the portfolio maintain an average credit quality of AA or A, as determined for each investment fund. For investments not under management of the Treasurer, there are no formal policies on credit risk.

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The following table presents the credit quality ratings of investments in debt securities of the primary government (excluding the OPERF) using Standard & Poor's ratings as of June 30, 2008 (in thousands):

| Credit Quality Ratings (Standard & Poor's) | Fair Value |
|--|---------------------|
| AAA | \$ 1,521,762 |
| AA | 3,375,880 |
| A | 1,993,079 |
| BBB | 60,497 |
| BB | 10,969 |
| B | 9,911 |
| CCC | 865 |
| C and below | 36 |
| Not rated | 343,598 |
| Total | <u>\$ 7,316,597</u> |

Included in the AAA rated securities total of \$1.5 billion is \$14.8 million in a Federal Home Loan Bank (FHLB) Senior Discount Note rated P-1, due to its short-term maturity.

Concentration of Credit Risk

Investment policy for fixed income investments under the management of the Treasurer generally limits investments in a single issuer to 5 percent of the portfolio, with the exception of securities of the U.S. government and U.S. agencies. For investments not under the management of the Treasurer, there are no formal policies on concentration of credit risk. At June 30, 2008, there were three issuers that exceeded 5 percent of the primary government's holdings: \$2.1 billion invested in Federal Home Loan Bank (14.5 percent), \$1.5 billion in Federal National Mortgage Association (10.2 percent), and \$1.3 billion in Federal Home Loan Mortgage Corporation (8.9 percent).

The Oregon Housing and Community Services Department also carried concentration of credit risk with 35 percent of their total investments in Federal Home Loan Bank, 34.3 percent in Federal National Mortgage Association, and 20.2 percent in Trinity Funding Company, LLC.

The Oregon Department of Veterans' Affairs total investments included 9 percent in Lehman Brothers Inc, 8.7 percent in Citigroup FDG Inc, 7 percent in Federal Home Loan Mortgage Corporation, 7 percent in Federal National Mortgage Association, 6.9 percent in Morgan Stanley Group Inc, and 6.8 percent in Bear Stearns Inc.

The Oregon State Lottery's investments included 35.1 percent in the Resolution Funding Corporation (RFC), a U.S. government agency.

The major governmental funds held the following concentrations of credit risk: the Health and Social Services Fund had non-participating guaranteed investment contracts (GICs) with Natixis Funding Corporation (72 percent) and U.S. Agency Securities (28 percent); the Public Transportation Fund held Federal Home Loan Mortgage Corporation (FHLMC) securities (21.7 percent); and the Environmental Management Fund had GICs with Natixis Funding Corporation (100 percent).

The nonmajor governmental funds also had concentrations of credit risk as follows: the Business Development Fund was invested in Northwest Technology Ventures (100 percent), a venture capital firm; the Community Protection Fund was invested in U.S. Agency Securities (100 percent); the Educational Support Fund held investments in Endeavour Capital (23.2 percent) and Smart Forest Ventures (14.5 percent), which are both venture capital firms; the Employment Services Fund held FHLMC securities (18.1 percent); and the Other Special Revenue Fund had an FHLB Senior Note (60 percent) and GICs with Natixis Funding Corporation (40 percent).

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Notes to the Financial Statements

The State's Debt Service and Capital Projects Funds also held concentrations of credit risk. The Revenue Bond Fund was invested in GICs with 40.8 percent in Municipal Bond Insurance Association (MBIA), and 36.2 percent with American International Group (AIG). The Revenue Bond Fund also had 22.7 percent of the fund's investments in an FHLB Discount Note. The Certificates of Participation Fund was 100 percent invested in Natixis Funding Corporation GICs. The General Obligation Bond Fund had 92 percent of its investments in corporate bonds as follows: Safeway Inc. (23.1 percent), Calenergy Inc. (23.1 percent), Associates Corporation of North America (23.1 percent), and Morgan Stanley Group Inc. (22.7 percent). The Capital Projects Fund was 90 percent invested in GICs with Natixis Funding Corporation.

Within governmental activities, the Central Services Fund held 24.3 percent of its investments in FHLMC securities.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Oregon state agencies are required to deposit monies in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policy for fixed income investments under the management of the Treasurer generally prohibits investments in non-U.S. dollar denominated international securities. In addition, the Common School Fund and the Oregon University System Pooled Endowment Fund are allowed to invest in international equity securities within a target allocation range of 25 to 35 percent of their portfolios. For investments not under the management of the Treasurer, there are no formal policies on foreign currency risk.

The following tables present deposits and investments that are exposed to foreign currency risk for the primary government (excluding the OPERF) as of June 30, 2008 (in thousands):

| Foreign Currency Denomination | Deposits (U.S. Dollars) |
|-------------------------------|----------------------------|
| Eurodollar | \$ 117 |
| Japanese yen | 114 |
| New Taiwan dollar | 24 |
| Total | <u>\$ 255</u> |

| Foreign Investment Type | Investments (U.S. Dollars) |
|----------------------------|-------------------------------|
| Equity | \$ 236,910 |
| Mutual Fund (Equity) | 208,756 |
| Mutual Fund (Fixed Income) | 5,916 |
| Fixed Income | 5,789 |
| Total | <u>\$ 457,371</u> |

Derivatives - Interest Rate Swap

The Oregon Housing and Community Services Department (OHCSA) has entered into ten separate pay-fixed, receive-variable interest rate swaps to lower borrowing costs compared to fixed-rate bonds. The notional amounts of the swaps match the principal amounts of the associated debt.

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Notes to the Financial Statements

The following table lists the terms, fair values, counterparty, and credit ratings of the outstanding swaps as of June 30, 2008 (dollars in thousands).

| Bond Series | Notional Amounts | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values | Swap Termination Date | Counterparty | S&P |
|-------------------------|---------------------|-------------------|-----------------------|---------------------------------|-------------------|-----------------------------|-----------------|-----|
| MF ¹ 2004 B | \$ 14,795 | 12/16/2004 | 3.894% | 64% of LIBOR ³ +.27% | \$ (270) | 7/1/2046 | Merrill Lynch | A |
| MRB ² 2004 C | 15,000 | 1/24/2006 | 4.032% | 64% of LIBOR +.29% | (250) | 7/1/2034 | Morgan Stanley | A+ |
| MRB 2004 I | 15,000 | 1/24/2006 | 4.012% | 64% of LIBOR +.29% | (349) | 7/1/2034 | Morgan Stanley | A+ |
| MRB 2006 C | 20,000 | 2/28/2006 | 4.184% | 64% of LIBOR +.29% | (719) | 7/1/2036 | Morgan Stanley | A+ |
| MRB 2006 F | 20,000 | 7/18/2006 | 4.430% | 64% of LIBOR +.29% | (1,179) | 7/1/2037 | Bank of America | AA+ |
| MRB 2006 G | 16,105 | 7/18/2006 | 3.833% | 64% of LIBOR +.19% | (963) | 7/1/2016 | Merrill Lynch | A |
| MRB 2007 E | 30,000 | 7/31/2007 | 4.388% | 64% of LIBOR +.29% | (1,962) | 7/1/2038 | Bear Stearns | AAA |
| MRB 2007 H | 30,000 | 11/20/2007 | 4.060% | 64% of LIBOR +.30% | (1,040) | 7/1/2038 | Merrill Lynch | A |
| MRB 2008 C | 35,000 | 2/26/2008 | 3.747% | 64% of LIBOR +.30% | 26 | 7/1/2038 | Bank of America | AA+ |
| MRB 2008 F | 35,000 | 5/13/2008 | 3.738% | 64% of LIBOR +.31% | 310 | 7/1/2039 | Bank of America | AA+ |
| Total | <u>\$ 230,900</u> | | | | <u>\$ (6,396)</u> | | | |

¹ Multifamily Housing Revenue Bonds

² Mortgage Revenue Bonds

³ One-month London Interbank Offered Rate

The MF 2004 B swap has a call option where OHCS D has the right to “call” (cancel) the swap in whole or in part semiannually beginning in 2015. The MRB swaps include options giving OHCS D the right to call the swaps in whole or in part, depending on the exercise date, semi-annually beginning in 2012 (2004 C & 2004 I), 2013 (2006 C, 2006 F, & 2008 F), 2014 (2007 E), or 2015 (2007 H & 2008 C). These options provide flexibility to manage the prepayments of loans and the related bonds.

Credit risk is the risk that a counterparty will not fulfill its obligations. OHCS D is exposed to credit risk in the amount of the fair value for each swap with a positive fair value. As of June 30, 2008, OHCS D was exposed to credit risk in the amount of \$336,299 based on the two swaps that had positive fair values. The valuations provided are derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. This valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

Basis risk is the risk that arises when variable interest rates on a derivative and the associated bond are based on different indexes. All variable interest rates on OHCS D’s tax exempt bonds are determined weekly by a Remarketing Agent. OHCS D is exposed to basis risk when the variable rate received, which is based on the one month LIBOR rate, does not offset the variable rate paid on the bonds. As of June 30, 2008, the LIBOR rate was 2.47 percent.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCS D or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the swap agreement. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates and OHCS D would then be exposed to interest rate risk. Also, if any of the swaps had a negative value at termination, OHCS D would be liable to the counterparty for a payment equal to the fair value of the swap.

State of Oregon
Notes to the Financial Statements

Using rates as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments are as follows (in thousands):

| Year Ending June 30, | Principal | Interest | Interest Rate Swaps (Net) | Total |
|-------------------------|-------------------|-------------------|------------------------------|-------------------|
| 2009 | \$ 160 | \$ 4,926 | \$ 4,179 | \$ 9,265 |
| 2010 | 165 | 4,732 | 4,898 | 9,795 |
| 2011 | 175 | 4,719 | 4,895 | 9,789 |
| 2012 | 180 | 4,706 | 4,891 | 9,777 |
| 2013 | 190 | 4,692 | 4,875 | 9,757 |
| 2014-2018 | 1,075 | 23,225 | 24,363 | 48,663 |
| 2019-2023 | 1,325 | 22,774 | 24,244 | 48,343 |
| 2024-2028 | 21,545 | 22,109 | 23,962 | 67,616 |
| 2029-2033 | 88,010 | 16,956 | 18,126 | 123,092 |
| 2034-2038 | 96,405 | 7,965 | 7,477 | 111,847 |
| 2039-2043 | 19,175 | 1,804 | 666 | 21,645 |
| 2044-2048 | 2,495 | 389 | 103 | 2,987 |
| Total | <u>\$ 230,900</u> | <u>\$ 118,997</u> | <u>\$ 122,679</u> | <u>\$ 472,576</u> |

On February 21, 2008, the Oregon Department of Veterans' Affairs, with the approval of the Treasury, entered into an interest rate swap to hedge its interest rate risk in connection with its General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating-rate bonds together create "synthetic" fixed-rate debt. The following table lists the terms, fair value and credit rating of the outstanding swap as of June 30, 2008 (dollars in thousands):

| Series | Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Paid | Fair Value | Swap Termination Date | Counterparty | Counterparty Rating |
|--------|--------------------|-------------------|-----------------------|-------------------------|---------------|-----------------------------|----------------|------------------------|
| 84 | \$25,000 | 3/1/2008 | 3.665% | 62.6% of LIBOR* + .265% | \$(231) | 6/1/2040 | Morgan Stanley | Aa3/A+** |

*London Interbank Offered Rate

**Moody's/S&P

The Series 84 swap was structured with an option that gives the Department of Veteran's Affairs the right to "cancel" or terminate the swap at par on any payment date, in whole or in part commencing June 1, 2017. This option enhances asset/liability matching and provides flexibility to adjust the outstanding notional amount of the swap over time.

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2008 is negative. The valuations provided are from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions and are provided by an independent third party source. This valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

As interest rates fluctuate, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department of Veteran's Affairs.

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Notes to the Financial Statements

Using interest rates as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments are as follows (in thousands):

| Year Ending June 30, | Principal | Interest | Interest Rate Swap (Net) | Total |
|-------------------------|------------------|------------------|-----------------------------|------------------|
| 2009 | \$ - | \$ 450 | \$ 472 | \$ 922 |
| 2010 | - | 450 | 465 | 915 |
| 2011 | - | 450 | 465 | 915 |
| 2012 | - | 451 | 465 | 916 |
| 2013 | - | 450 | 465 | 915 |
| 2014-2018 | 1,335 | 2,220 | 2,277 | 5,832 |
| 2019-2023 | 2,895 | 2,016 | 2,047 | 6,958 |
| 2024-2028 | 3,980 | 1,713 | 1,719 | 7,412 |
| 2029-2033 | 5,490 | 1,294 | 1,269 | 8,053 |
| 2034-2038 | 7,535 | 719 | 649 | 8,903 |
| 2039-2043 | 3,765 | 81 | 36 | 3,882 |
| Total | <u>\$ 25,000</u> | <u>\$ 10,294</u> | <u>\$ 10,329</u> | <u>\$ 45,623</u> |

C. Investments – Primary Government – Oregon Public Employees Retirement Fund

The Council establishes policies for the investment of monies in the OPERF. Policies are established based on the primary investment class of each investment manager and do not reflect the classifications of individual holdings as presented in the financial statements. Contracts with individual investment managers provide additional guidelines that vary from manager to manager.

Interest Rate Risk

Investment policy requires that the fixed income manager positions will maintain an average bond duration level of plus or minus 20 percent of the benchmark duration. There is no policy restriction for non-fixed income investment managers who may hold fixed income positions. As of June 30, 2008, the average duration of the debt investment portfolio was 5.1 years. In this schedule, Domestic Fixed Income Mutual Funds of \$1.9 billion and International Fixed Income Mutual Funds of \$411.8 million are reported using duration instead of average maturity, and amounts are a portion of the amount shown in the financial statements. Since the debt investment portfolio may contain holdings with prepayments and variable cash flows, an analysis of interest rate risk using the segmented time distribution method as of June 30, 2008, is presented in the schedule below (in thousands):

| Investment Type | Schedule of Interest Rate Risk | | | | |
|---|----------------------------------|---------------------|---------------------|---------------------|----------------------|
| | Investment Maturities (in years) | | | | Fair Value |
| | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | |
| U.S. Treasury Securities | \$ 395,388 | \$ 127,900 | \$ 23,871 | \$ 24,178 | \$ 571,337 |
| U.S. Agency Mortgage Securities | 442,485 | 6,112 | 76,733 | 1,856,323 | 2,381,653 |
| U.S. Agency Securities | 36,523 | 39,171 | 99,403 | 70,773 | 245,870 |
| U.S. Agency Strips | - | - | 3,058 | 3,481 | 6,539 |
| U.S. Treasury Securities Strips | - | 9,616 | - | 47,087 | 56,703 |
| U.S. Treasury Securities TIPS | 10,602 | 1,988 | 90,873 | 170,833 | 274,296 |
| International Debt Securities | 482,161 | 554,424 | 659,248 | 486,594 | 2,182,427 |
| Corporate Bonds | 608,305 | 1,177,185 | 1,356,766 | 708,178 | 3,850,434 |
| Municipal Bonds | 538 | 2,006 | 2,607 | 13,094 | 18,245 |
| Collateralized Mortgage Obligations | 1,356,582 | 7,579 | 12,815 | 914,227 | 2,291,203 |
| Asset-Backed Securities | 195,491 | 88,516 | 136,431 | 80,978 | 501,416 |
| Mutual Funds - Short Term Investments | 2,359,347 | - | - | - | 2,359,347 |
| Mutual Funds - Domestic Fixed Income | - | 2,203,881 | 400,746 | - | 2,604,627 |
| Mutual Funds - International Fixed Income | - | 59,520 | 799,492 | 188,358 | 1,047,370 |
| Total Debt Investments | <u>\$ 5,887,422</u> | <u>\$ 4,277,898</u> | <u>\$ 3,662,043</u> | <u>\$ 4,564,104</u> | <u>\$ 18,391,467</u> |

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Credit Risk

Investment policy requires that no more than 30 percent of the fixed income manager positions be below investment grade. Securities with a quality rating below BBB- (using Standard & Poor's credit ratings) are considered below investment grade. Policies also require that the minimum aggregate credit quality be A+ as measured by the weighted average of the portfolio. There is no policy restriction on other investment managers who may hold debt securities. As of June 30, 2008, the fair value of below grade investments is \$2.5 billion or 13.4 percent of the fixed income securities portfolio, and the weighted quality rating average is AA-. The following table presents the credit quality ratings for debt securities within the OPERF investment portfolio as of June 30, 2008 (in thousands):

| Credit Quality Ratings (Standard & Poor's) | Fair Value |
|--|----------------------|
| AAA | \$ 7,633,640 |
| AA | 3,579,525 |
| A | 1,759,150 |
| BBB | 1,937,663 |
| BB | 877,512 |
| B | 851,672 |
| CCC | 89,109 |
| CC | 15,414 |
| C | 184 |
| D | 7,895 |
| Not Rated | 619,256 |
| Total | <u>\$ 17,371,020</u> |

Concentrations of Credit Risk

The Council's investment policy pertaining to OPERF investments requires that investment managers maintain diversified portfolios. There is no limit on single issuer investments for domestic, global, and international equity fund managers. Policy requires that the asset classes be diversified across their respective markets. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. Policy provides the following limitations for fixed income investment manager positions:

- There are no restrictions on obligations issued or guaranteed by the U.S. government, U.S. agencies, or government sponsored enterprises.
- No more than 10 percent of the debt investment portfolio per issuer may be invested in obligations of other national governments.
- No more than 10 percent of the debt investment portfolio per issuer or 25 percent in a single issuer, after meeting additional collateral requirements, can be invested in private mortgage-backed and asset-backed securities. The collateral is credit-independent of the issuer and the security's credit enhancement is generated internally.
- No more than 3 percent of the debt investment portfolio may be invested in other issuers, excluding investments in commingled investments.

At June 30, 2008, there were no single issuer debt investments that exceeded the above guidelines, nor were there investments in any one issuer that represent 5 percent or more of plan net assets.

Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Foreign currency risk is controlled via contractual agreements with the investment managers. Policy requires that no more than 15 percent of the fixed income manager positions may be invested in non-dollar denominated securities.

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Policies for the non-fixed portion of the portfolio are silent regarding this risk. As of June 30, 2008 approximately 7 percent of the debt investment portfolio was invested in non-dollar denominated securities.

The OPERF's exposure to foreign currency risk as of June 30, 2008 is as follows (in thousands):

| Deposits and Investments (U.S. Dollars) | | | | |
|--|-------------------|--|--------------------------------------|----------------------|
| Foreign Currency Denomination | Deposits | International Equity Securities | International Debt Securities | Total |
| Argentine peso | \$ 110 | \$ - | \$ - | \$ 110 |
| Australian dollar | 2,393 | 452,539 | 22,363 | 477,295 |
| Brazilian real | 245 | 223,619 | 58,583 | 282,447 |
| British sterling pound | 8,090 | 2,080,541 | 183,811 | 2,272,442 |
| Canadian dollar | 1,769 | 595,889 | 20,486 | 618,144 |
| Chilean peso | 87 | 6,092 | - | 6,179 |
| Colombian peso | (646) | 2,293 | 846 | 2,493 |
| Czech koruna | 7 | 18,607 | - | 18,614 |
| Danish krone | 223 | 47,868 | 112,781 | 160,872 |
| Egyptian pound | 108 | 27,422 | 1,309 | 28,839 |
| Euro | 35,354 | 3,374,839 | 405,743 | 3,815,936 |
| Hong Kong dollar | 3,395 | 460,487 | - | 463,882 |
| Hungarian forint | 4 | 13,779 | 576 | 14,359 |
| Indonesian rupiah | 48 | 34,449 | 11,420 | 45,917 |
| Israeli shekel | 67 | 28,617 | - | 28,684 |
| Japanese yen | 33,678 | 2,173,670 | 420,892 | 2,628,240 |
| Malaysian ringgit | 42 | 26,006 | - | 26,048 |
| Mexican peso | (35) | 70,986 | (64) | 70,887 |
| New Russian ruble | - | - | 410 | 410 |
| New Taiwan dollar | 12,299 | 175,144 | - | 187,443 |
| New Turkish lira | 835 | 111,994 | - | 112,829 |
| New Zealand dollar | 164 | 8,773 | 36,497 | 45,434 |
| Norwegian krone | 2,310 | 102,288 | 1,200 | 105,798 |
| Pakistan rupee | (205) | 22,448 | - | 22,243 |
| Peruvian nuevo sol | - | 734 | 1,403 | 2,137 |
| Philippine peso | 8 | 5,891 | - | 5,899 |
| Polish zloty | 6 | 13,911 | 1,458 | 15,375 |
| Singapore dollar | 2,080 | 143,564 | 500 | 146,144 |
| South African rand | 64 | 125,052 | 14 | 125,130 |
| South Korean won | 160 | 250,594 | - | 250,754 |
| Sri Lanka rupee | - | 1,517 | - | 1,517 |
| Sudanese pound | 2 | - | - | 2 |
| Swedish krona | 4,656 | 167,631 | 4,719 | 177,006 |
| Swiss franc | 4,115 | 569,139 | - | 573,254 |
| Thai baht | 335 | 29,015 | - | 29,350 |
| Uruguayan peso | - | - | 313 | 313 |
| Venezuelan bolivar | 12 | - | - | 12 |
| Zimbabwe dollar | 50 | 767 | - | 817 |
| Total | \$ 111,830 | \$ 11,366,165 | \$ 1,285,260 | \$ 12,763,255 |

Derivatives

Derivatives are contracts for which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with its investment policy, the Treasury invests either directly or through its outside investment managers on behalf of the Public Employees Retirement System (PERS) in

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contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. OPERF investments, including those with derivative characteristics, are reported at fair value in the Statement of Fiduciary Net Assets.

D. Investments – Discretely Presented Component Units

Interest Rate Risk

The Oregon Health and Science University (OHSU) investment policies vary based on the investment objectives of the portfolio. The operating and trustee-held portfolios seek to preserve principal with the intent of maximizing total return within appropriate risk parameters. Maturities of securities in these portfolios are based upon returns available at the time of investing, while considering cash requirements of the organization.

The endowment portfolio seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. Fixed income securities held in this portfolio have a medium to long duration (3 to 10 years). The charitable gift annuity funds held in this portfolio seek to produce a relatively predictable and stable payout stream to satisfy the distribution obligations, while achieving long-term capital appreciation of the overall portfolio balance. Fixed income securities in this portfolio have a short duration (1 to 3 years). Charitable trust investments are managed to produce a relatively predictable and stable payout stream to satisfy the distribution obligations, while achieving long-term capital appreciation of the overall portfolio balance. Fixed income security duration is determined based on the individual circumstances of each trust account.

As of June 30, 2008, OHSU held \$74 million of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations. These securities are valued at fair value. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of OHSU's investment portfolio. OHSU has certain joint ventures and partnerships, alternative investments, real estate investments and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

SAIF Corporation's (SAIF) investment policies are governed by statute and the Oregon Investment Council (Council). The Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. Equity investments are limited to not more than 50 percent of the monies contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 10 to 20 percent of the market value of invested assets, with a target allocation of 15 percent.

SAIF's policy for fixed income investments effective January 1, 2005, provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2007 was 7.3 years, with an acceptable range of 5.8 to 8.8 years. As of that date, the fixed income portfolio's duration was 7 years. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Bond, mortgage-backed, asset-backed, and equity security transactions are recorded on a trade-date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer, depending on the security.

The Oregon University System (OUS) Foundations follow the investment reporting requirements of the Financial Accounting Standards Board (FASB). Because FASB accounting and reporting standards differ from the Governmental Accounting Standards Board (GASB), the OUS Foundations are excluded from investment risk disclosures.

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Notes to the Financial Statements

The following table presents the interest rate risk information for debt investments of OHSU as of June 30, 2008 and SAIF as of December 31, 2007 (in thousands):

| | Schedule of Interest Rate Risk | | | | |
|--------------------------------------|----------------------------------|--------------|------------|--------------|--------------|
| | Investment Maturities (in years) | | | | |
| Investment Type | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | Fair Value |
| U.S. Treasury Securities | \$ 7,660 | \$ 180,961 | \$ 35,051 | \$ 293,769 | \$ 517,441 |
| U.S. Treasury Securities TIPS | - | - | - | 22,269 | 22,269 |
| U.S. Treasury Securities Strips | - | - | - | 53,534 | 53,534 |
| U.S. Agency Securities | 5,491 | 188,155 | 15,377 | 49,134 | 258,157 |
| U.S. Agency Mortgage Securities | 84,992 | 216,303 | 132,363 | 167,072 | 600,730 |
| Corporate Bonds | 19,871 | 418,431 | 348,076 | 523,463 | 1,309,841 |
| International Debt Securities | 6,536 | 57,715 | 57,642 | 191,634 | 313,527 |
| Asset-Backed Securities | 57,425 | 64,713 | 11,681 | 5,554 | 139,373 |
| Collateralized Mortgage Obligations | 23,313 | 67,689 | 123,553 | 18,745 | 233,300 |
| Municipal Bonds | - | - | 1,418 | 26,268 | 27,686 |
| Money Market Fund | 43,290 | - | - | - | 43,290 |
| Mutual Funds – Domestic Fixed Income | - | - | - | 7,056 | 7,056 |
| Total Debt Investments | \$ 248,578 | \$ 1,193,967 | \$ 725,161 | \$ 1,358,498 | \$ 3,526,204 |

Credit Risk

OHSU's operating and trustee-held portfolios require minimum ratings from Moody's or Standard and Poor's (S&P) between Baa3/BBB- and Aaa/AAA at the date of purchase. The endowment portfolio requires a weighted average credit rating of each fixed income portfolio (within the pool) of A or higher and an avoidance of the prospect of credit failure or risk of permanent loss. Issues of state or municipal agencies are prohibited, except under unusual circumstances. The endowment portfolio may hold up to a maximum of 10 percent of the fixed income portion of the fund in below investment grade (but rated B or higher by Moody's or S&P) fixed income securities. The charitable gift annuity and charitable trust investments require a minimum credit quality rating in investment grade Baa/BBB bond investments and a minimum of A1-P1 for investments in commercial paper.

SAIF's credit risk policy is to maintain a well-diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. SAIF maintains an overall fixed income portfolio quality of at least AA- or higher. Additionally, the portfolio is adequately diversified to minimize risk.

The following table presents the credit quality ratings for debt investments of OHSU as of June 30, 2008 and SAIF as of December 31, 2007 (in thousands):

| Credit Quality Ratings (Standard & Poor's) | Fair Value |
|---|---------------------|
| AAA | \$ 1,636,401 |
| AA | 326,832 |
| A | 548,439 |
| BBB | 580,241 |
| BB | 57,937 |
| B and Lower | 60,189 |
| Not Rated | 80,246 |
| Total | <u>\$ 3,290,285</u> |

Concentration of Credit Risk

OHSU's operating and trustee-held portfolios limit investments in any one issue to a maximum of 10 percent depending on the investment type, except for issues of the U.S. Government or agencies of the U.S. Government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5 percent, except for issues of the U.S. Government or

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agencies of the U.S. Government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2008, OHSU had no investments in excess of these thresholds.

SAIF's investment policy places a limit on the amount that may be invested in any one issuer. The following specific limitations reflect, in part, the Oregon Investment Council's current investment philosophy regarding diversification.

- No fixed income investment in any one issue shall be in excess of 5 percent of the outstanding fixed income obligations of the issuer.
- Not more than 3 percent of the total market value of the SAIF fixed income portfolio shall be invested in fixed income securities of any one issuer, except U.S. government and agency obligations (no limit) and private mortgage-backed and asset-backed securities, which shall be limited to 10 percent per issuer.
- Obligations of other national governments are limited to 10 percent per issuer.

As of December 31, 2007, SAIF did not have a concentration of credit risk in any one issuer that represented 5 percent or more of total investments.

Foreign Currency Risk

OHSU investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The operating and trustee-held portfolios allow investments in Eurodollar certificates of deposit. The endowment portfolio allows up to 35 percent of the portfolio to be invested in international equities and up to 25 percent of the fixed income portion of the portfolio to be invested in non-U.S. dollar denominated bonds. The charitable gift annuity portfolio allows up to 10 percent of the portfolio to be invested in international equities. The charitable trust investments are permitted to include international equities and the amount of the investment is determined based on the individual circumstances of each trust account.

SAIF is prohibited by investment policy from investing in non-U.S. dollar denominated securities.

For the discretely presented component units, there were no deposits in foreign currencies. However, there were international securities denominated in foreign currencies for OHSU. The following table details the fair value of foreign-denominated securities by currency type as of June 30, 2008 (in thousands):

| Foreign Currency Denomination | Investments (U.S. Dollars) |
|-------------------------------|-------------------------------|
| Australian dollar | \$ 1,845 |
| Brazilian real | 567 |
| British sterling pound | 31 |
| Canadian dollar | 419 |
| Eurodollar | 196 |
| Iceland krona | 277 |
| Indonesian rupiah | 321 |
| Japanese yen | 988 |
| Malaysian ringgit | 918 |
| Mexican peso | 634 |
| New Zealand dollar | 630 |
| Norwegian krone | 330 |
| Polish zloty | 757 |
| Singapore dollar | 981 |
| South African rand | 500 |
| Swedish krona | 569 |
| Turkish lira | 221 |
| Total | <u>\$ 10,184</u> |

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Derivatives - Interest Rate Swap

In connection with the issuance of the 2005 Revenue Bonds, OHSU entered into two interest rate swap agreements with the notional amounts of \$45.93 million and \$45.90 million, respectively. The intention of the swaps was to effectively change the variable rate debt to a synthetic fixed rate of 3.34 percent as of the closing date of the bonds.

The notional amounts of the swaps and the principal amounts of the associate debt decline over time and terminate on July 1, 2028 (the final maturity date of the underlying bonds). OHSU is currently making fixed rate interest payments to the counterparty for the two swaps and receives variable rate payments computed as 62.67 percent of the London Interbank Offered Rate (LIBOR) plus .177 percent. The variable rate bonds reprice weekly based upon market conditions.

The aggregated estimated fair value of the interest rate swaps was a liability of \$1.7 million at June 30, 2008. The fair value represents the estimated amount that OHSU would pay if the swap agreements were terminated at year-end, taking into account current interest rates and the credit worthiness of the underlying counterparty.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2008, the counterparty's credit ratings were AA- from S&P and Aa2 from Moody's. Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formula of 62.67 percent of one-month LIBOR plus .177 percent varies from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change. OHSU or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract.

E. Repurchase and Reverse Repurchase Agreements. Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2008:

- \$1.9 billion, or 33.6 percent of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies except PERS.
- \$105.6 million, or 2.4 percent of PERS' share of the collective investment pool, the cash collateral pool in which PERS is a participant along with other qualified pension plans.

Oregon Investment Council policy permits OPERF to enter into reverse repurchase agreements. As of June 30, 2008, OPERF had outstanding reverse repurchase agreements of \$291 million, including accrued interest as of June 30, 2008 (rates from 2.45 to 2.55 percent), the balance to be repaid on the maturity date of the agreements, July 14, 2008. The securities underlying the reverse repurchase agreements were federal agency mortgage pool securities with coupon rates from 5 to 6 percent. As of June 30, 2008, the underlying securities had a fair value of \$306.4 million and, therefore, the economic exposure on that date was \$15 million, should the dealers fail to resell the securities to OPERF or provide collateral of equal value. In reinvesting the proceeds of these agreements, the investment manager follows the contractual investment guidelines under which it operates.

F. Securities Lending. The State participates in securities lending transactions in accordance with State investment policies. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements.

During the year, State Street loaned U.S. government and agency securities, domestic fixed income and equity securities, and international fixed income and equity securities, and received as collateral U.S. dollar-denominated cash, U.S. government and agency securities, and foreign sovereign debt securities of the Organization of Economic Cooperation Development countries. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security, or 105 percent in the case of international securities. Loans are marked to market daily. If the market value of collateral falls below 102 percent or 105 percent of the fair value of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102 percent or 105 percent. If the market value of collateral

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falls below 100 percent, the borrower must provide additional collateral to raise the market value to 102 percent or 105 percent. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.

The cash collateral received on loans from the OPERF was invested, together with cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (Pool) maintained by State Street. The cash collateral received on loans from State entities, other than the OPERF, was invested in the Oregon Short-term Investment Fund (Fund), also maintained by State Street. Both the Pool and the Fund are considered "external investment pools" for purposes of GASB Statement No. 31.

The State's participation in the pool and the fund is voluntary. The fair value of investments held by the funds is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. Since the funds are accounted for at amortized cost, the fair value of the State's position in the funds is not the same as the value of the funds' shares. No income from the funds was assigned to any other funds by the custodial agent.

During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral is reported in the Statement of Net Assets and, since the cash collateral for all agencies is pooled, it is not exposed to custodial credit risk. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the Pool or the Fund. The State had no credit risk exposure to borrowers related to securities on loan. As of December 31, 2007, the fair values of securities on loan and collateral held for SAIF Corporation were \$558.6 million and \$570.1 million, respectively. The securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2008, of the primary government are presented below (in thousands):

| Investment Type | Securities on Loan at Fair Value | Cash and Securities Collateral Received | Investments of Cash Collateral at Fair Value |
|---------------------------------------|-------------------------------------|--|--|
| U.S. Treasury and Agency Securities | \$ 5,911,502 | \$ 6,030,112 | \$ 5,986,736 |
| International Equity Securities | 2,049,669 | 2,157,708 | 1,197,737 |
| Domestic Equity Securities | 1,967,834 | 2,031,464 | 1,891,182 |
| Domestic Fixed Income Securities | 345,041 | 353,148 | 349,300 |
| International Fixed Income Securities | 41,706 | 42,930 | 41,213 |
| Total | <u>\$ 10,315,752</u> | <u>\$ 10,615,362</u> | <u>\$ 9,466,168</u> |

G. Restricted Assets. Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2008, the primary government had restricted assets of \$1.2 billion in deposits and \$809 million in investments. The discretely presented component units had restricted assets of \$1.6 billion in investments.

3. RECEIVABLES AND PAYABLES

A. Receivables. The following tables disaggregate receivable balances reported in the fund financial statements as Accounts and Interest Receivable (net) and Net Contracts, Notes, and Other Receivables. Contracts, Notes, and Other Receivables are not expected to be collected within one year of the date of the financial statements.

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Receivables reported for governmental activities at June 30, 2008, were as follows (in thousands):

| | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Other | Total | Internal Service |
|----------------------------------|-----------|----------------------------------|--------------------------|-----------------------------|------------------|------------|------------|---------------------|
| Governmental activities: | | | | | | | | |
| General accounts | \$ 9,666 | \$ 85,332 | \$ 32,975 | \$ 10,364 | \$ 152 | \$ 97,394 | \$ 235,883 | \$ 71,824 |
| Due from federal government | - | 191,665 | 82,745 | 20,998 | - | 95,481 | 390,889 | - |
| Interest | - | - | 2,136 | 1,835 | 1,799 | 4,776 | 10,546 | 959 |
| Broker receivable | - | - | - | - | 7,548 | - | 7,548 | - |
| Notes - short-term | - | - | - | - | - | 3 | 3 | - |
| Contracts | - | - | 1,574 | 355 | 20 | 92 | 2,041 | - |
| Mortgages | - | 3,979 | - | - | - | - | 3,979 | - |
| Court fines and fees | - | - | - | - | - | 246,983 | 246,983 | - |
| Collection assessments | - | - | - | - | - | 193,712 | 193,712 | - |
| Child support recoveries | - | - | - | - | - | 264,589 | 264,589 | - |
| Workers' compensation recoveries | - | - | - | - | - | 48,991 | 48,991 | - |
| Other | 33,302 | 109 | 3,004 | 4,111 | - | 62,858 | 103,384 | 1,961 |
| Gross receivables | 42,968 | 281,085 | 122,434 | 37,663 | 9,519 | 1,014,879 | 1,508,548 | 74,744 |
| Allowance for uncollectibles | (20,908) | (2,827) | (2,115) | (2,588) | - | (696,376) | (724,814) | (921) |
| Total receivables, net | \$ 22,060 | \$ 278,258 | \$ 120,319 | \$ 35,075 | \$ 9,519 | \$ 318,503 | \$ 783,734 | \$ 73,823 |

Receivables reported for business-type activities at June 30, 2008, were as follows (in thousands):

| | Housing and Community Services | Veterans' Loan | Lottery Operations | Unemployment Compensation | University System | Other | Total |
|----------------------------------|--------------------------------------|-------------------|-----------------------|------------------------------|----------------------|-----------|------------|
| Business-type activities: | | | | | | | |
| General accounts | \$ 30 | \$ 118 | \$ 28,101 | \$ 162,007 | \$ 185,294 | \$ 9,266 | \$ 384,816 |
| Due from federal government | - | - | - | 9,298 | - | 512 | 9,810 |
| Interest | 8,535 | 2,945 | - | 637 | 48 | 13,373 | 25,538 |
| Broker receivable | - | - | - | - | 133 | - | 133 |
| Contracts | - | 4,385 | - | - | - | - | 4,385 |
| Loans | - | - | - | - | 17,769 | - | 17,769 |
| Loans - long-term | - | - | - | - | 74,145 | - | 74,145 |
| Other | - | - | 2,694 | 15,691 | - | 88 | 18,473 |
| Gross receivables | 8,565 | 7,448 | 30,795 | 187,633 | 277,389 | 23,239 | 535,069 |
| Allowance for uncollectibles | - | - | (331) | (5,736) | (21,050) | (2,631) | (29,748) |
| Total receivables, net | \$ 8,565 | \$ 7,448 | \$ 30,464 | \$ 181,897 | \$ 256,339 | \$ 20,608 | \$ 505,321 |

Receivables reported for fiduciary funds at June 30, 2008, were as follows (in thousands):

| | Agency | Private Purpose Trust |
|-----------------------------------|------------|-----------------------------|
| Fiduciary fund activities: | | |
| Restitution | \$ 301,222 | \$ - |
| Other | 874 | 91 |
| Gross receivables | 302,096 | 91 |
| Allowance for uncollectibles | (225,642) | (28) |
| Total receivables, net | \$ 76,454 | \$ 63 |

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Receivables reported for the SAIF Corporation (SAIF) at December 31, 2007, and the Oregon Health and Science University (OHSU) at June 30, 2008, were as follows (in thousands):

| | SAIF | OHSU |
|--|-------------------|-------------------|
| Discretely presented component units: | | |
| Patient accounts | \$ - | \$ 267,004 |
| Premiums | 327,284 | - |
| Due from federal government | - | 18,773 |
| Interest | 35,210 | 2,969 |
| Student loans | - | 27,506 |
| Broker receivable | 280 | - |
| Other | 16,002 | 11,647 |
| Gross receivables | <u>378,776</u> | <u>327,899</u> |
| Allowance for uncollectibles | <u>(1,139)</u> | <u>(113,034)</u> |
| Total receivables, net | <u>\$ 377,637</u> | <u>\$ 214,865</u> |

B. Payables. The following tables disaggregate payables reported in the fund financial statements as Accounts and Interest Payable and Contracts, Mortgages and Notes Payable.

Payables reported for governmental activities at June 30, 2008, were as follows (in thousands):

| | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Other | Total | Internal Service |
|---------------------------------|-------------------|----------------------------------|--------------------------|-----------------------------|------------------|-------------------|-------------------|---------------------|
| Governmental activities: | | | | | | | | |
| General accounts | \$ 173,407 | \$ 160,290 | \$ 142,953 | \$ 24,402 | \$ 407 | \$ 153,889 | \$ 655,348 | \$ 20,077 |
| Interest | - | - | - | - | - | 29 | 29 | 1,447 |
| Broker payable | - | - | - | - | 7,924 | - | 7,924 | - |
| Taxes | 26 | - | - | - | - | - | 26 | - |
| Contracts | - | - | 131 | - | - | 393 | 524 | 305 |
| Total payables | <u>\$ 173,433</u> | <u>\$ 160,290</u> | <u>\$ 143,084</u> | <u>\$ 24,402</u> | <u>\$ 8,331</u> | <u>\$ 154,311</u> | <u>\$ 663,851</u> | <u>\$ 21,829</u> |

Payables reported for business-type activities at June 30, 2008, were as follows (in thousands):

| | Housing and Community Services | Veterans' Loan | Lottery Operations | University System | Other | Total |
|----------------------------------|--------------------------------------|-------------------|-----------------------|----------------------|------------------|-------------------|
| Business-type activities: | | | | | | |
| General accounts | \$ 1,199 | \$ 466 | \$ 13,599 | \$ 94,726 | \$ 24,712 | \$ 134,702 |
| Interest | 34,982 | 3,202 | - | 15,739 | 6,298 | 60,221 |
| Broker payable | - | - | - | 121 | - | 121 |
| Loans | 1,500 | - | - | - | - | 1,500 |
| Notes | - | 1,000 | - | 27 | - | 1,027 |
| Contracts | - | - | - | 6,203 | - | 6,203 |
| Total payables | <u>\$ 37,681</u> | <u>\$ 4,668</u> | <u>\$ 13,599</u> | <u>\$ 116,816</u> | <u>\$ 31,010</u> | <u>\$ 203,774</u> |

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Payables reported for fiduciary funds at June 30, 2008, were as follows (in thousands):

| | Pension Trust | Private Purpose Trust | Investment Trust | Agency |
|-----------------------------------|---------------------|-----------------------------|---------------------|-------------|
| Fiduciary fund activities: | | | | |
| General accounts | \$ 286,260 | \$ 50 | \$ 49 | \$ 5 |
| Compensated absences payable | 1,241 | - | - | - |
| Broker payable | 3,139,262 | - | - | - |
| Mortgages | - | 1,928 | - | - |
| Total payables | <u>\$ 3,426,763</u> | <u>\$ 1,978</u> | <u>\$ 49</u> | <u>\$ 5</u> |

Payables reported for the SAIF Corporation (SAIF) at December 31, 2007, and the Oregon Health and Science University (OHSU) at June 30, 2008, were as follows (in thousands):

| | SAIF | OHSU |
|--|------------------|-------------------|
| Discretely presented component units: | | |
| General accounts | \$ 20,615 | \$ 127,606 |
| Contracts | - | 31,512 |
| Reinsurance | 10,975 | - |
| Commission payable | 11,347 | - |
| Broker payable | 5 | - |
| Total payables | <u>\$ 42,942</u> | <u>\$ 159,118</u> |

4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 to coordinate lottery games with larger prizes than the individual states could offer by themselves. The Oregon Lottery has been a participating member since the inception of MUSL. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and the operating expenses of MUSL. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2008, was \$20,000.

MUSL is governed by a board on which each member lottery is represented. Each member lottery has one vote. The board's responsibilities to administer multi-state lottery games are performed through product groups, advisory committees, or panels staffed by officers and independent contractors as appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties, and qualifications. The executive committee carries out the budgeting and financing of MUSL, and the board contracts annually with an independent auditor. Upon termination of the MUSL's existence, if such termination should occur, the member lotteries would receive any proceeds determined available for distribution by the board.

The fiscal year end for MUSL is June 30. Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities.

Separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322.

5. CAPITAL ASSETS

A. Primary Government

Capital Asset Activity

Capital asset activity for the primary government for the year ended June 30, 2008, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|--------------|-------------------|
| Governmental activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,663,529 | \$ 32,012 | \$ 4,255 | \$ 1,691,286 |
| Construction in Progress | 2,433,828 | 53,231 | 1,792,098 | 694,961 |
| Works of Art and Historical Treasures | 940 | 306 | 22 | 1,224 |
| Total capital assets not being depreciated | 4,098,297 | 85,549 | 1,796,375 | 2,387,471 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, Property and Equipment | 2,364,358 | 341,974 | 48,468 | 2,657,864 |
| Infrastructure | 13,587,253 | 1,762,530 | 486,606 | 14,863,177 |
| Total capital assets being depreciated | 15,951,611 | 2,104,504 | 535,074 | 17,521,041 |
| Less accumulated depreciation for: | | | | |
| Buildings, Property and Equipment | 972,637 | 111,034 | 34,075 | 1,049,596 |
| Infrastructure | 8,648,833 | 638,853 | 486,494 | 8,801,192 |
| Total accumulated depreciation | 9,621,470 | 749,887 | 520,569 | 9,850,788 |
| Total capital assets being depreciated, net | 6,330,141 | 1,354,617 | 14,505 | 7,670,253 |
| Governmental activities capital assets, net | \$ 10,428,438 | \$ 1,440,166 | \$ 1,810,880 | \$ 10,057,724 |

The beginning balance has been restated to \$10,428,438 to reflect a prior period adjustment of \$124,760.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------|-------------|-------------------|
| Business-type activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 89,866 | \$ 5,400 | \$ (11,212) | \$ 106,478 |
| Construction in Progress | 94,883 | 175,563 | 105,766 | 164,680 |
| Works of Art and Historical Treasures | 59,276 | 2,113 | 36 | 61,353 |
| Total capital assets not being depreciated | 244,025 | 183,076 | 94,590 | 332,511 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, Property and Equipment | 2,538,292 | 195,029 | 63,664 | 2,669,657 |
| Infrastructure | 54,456 | 2,332 | 351 | 56,437 |
| Total capital assets being depreciated | 2,592,748 | 197,361 | 64,015 | 2,726,094 |
| Less accumulated depreciation for: | | | | |
| Buildings, Property and Equipment | 1,202,142 | 124,933 | 42,822 | 1,284,253 |
| Infrastructure | 38,037 | 2,132 | 231 | 39,938 |
| Total accumulated depreciation | 1,240,179 | 127,065 | 43,053 | 1,324,191 |
| Total capital assets being depreciated, net | 1,352,569 | 70,296 | 20,962 | 1,401,903 |
| Business-type activities capital assets, net | \$ 1,596,594 | \$ 253,372 | \$ 115,552 | \$ 1,734,414 |

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| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------|-----------|-------------------|
| Fiduciary fund activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 958 | \$ - | \$ - | \$ 958 |
| Total capital assets not being depreciated | 958 | - | - | 958 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, Property and Equipment | 18,889 | 466 | - | 19,355 |
| Total capital assets being depreciated | 18,889 | 466 | - | 19,355 |
| Less accumulated depreciation for: | | | | |
| Buildings, Property and Equipment | 6,926 | 1,400 | - | 8,326 |
| Total accumulated depreciation | 6,926 | 1,400 | - | 8,326 |
| Total capital assets being depreciated, net | 11,963 | (934) | - | 11,029 |
| Fiduciary fund activities capital assets, net | \$ 12,921 | \$ (934) | \$ - | \$ 11,987 |

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental activities:

| | |
|--|------------|
| Education | \$ 215 |
| Human Services | 2,110 |
| Public Safety | 34,676 |
| Economic and Community Development | 970 |
| Natural Resources | 15,249 |
| Transportation | 653,808 |
| Consumer and Business Services | 163 |
| Administration | 5,139 |
| Legislative | 1,265 |
| Judicial | 1,517 |
| Subtotal | 715,112 |
| Internal Service Funds | 34,775 |
| Total depreciation expense - governmental activities | \$ 749,887 |

Business-type activities:

| | |
|---|------------|
| Housing and Community Services | \$ 17 |
| Veterans' Loan | 160 |
| Lottery Operations | 30,843 |
| University System | 91,724 |
| Other Business-type Activities | 4,321 |
| Total depreciation expense - business-type activities | \$ 127,065 |

Fiduciary fund activities:

| | |
|---|----------|
| Pension and Other Employee Benefit Trust | \$ 1,400 |
| Total depreciation expense - fiduciary activities | \$ 1,400 |

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Construction Commitments

The State has active construction projects as of June 30, 2008, which will be funded either through general fund appropriation, federal grants, lottery resources, or other funding sources as noted in the schedule below. At year end, the State's construction commitments with contractors are as follows (in thousands):

| Project | Spent-to-Date | Remaining Commitment | Remaining Commitment Source of Funds | | | |
|---|---------------|-------------------------|--------------------------------------|------------|-----------|------------|
| | | | General | Federal | Lottery | Other |
| Emergency coordination facility | \$ 21,851 | \$ 21,828 | \$ - | \$ 16,137 | \$ - | \$ 5,691 |
| Military facilities | 4,993 | 81,665 | 562 | 63,601 | - | 17,502 |
| Forestry headquarters building | 745 | 357 | - | - | - | 357 |
| Oregon State Hospital facility | 3,035 | 52,381 | - | - | - | 52,381 |
| State parks facilities | 4,124 | 6,015 | - | - | 3,404 | 2,611 |
| Prison construction and upgrades | 148,361 | 10,010 | 157 | - | - | 9,853 |
| University building construction and upgrades | 442,298 | 366,272 | 14,302 | - | 19,735 | 332,235 |
| Road and bridge construction | 518,213 | 1,319,506 | - | 848,800 | - | 470,706 |
| Upgrade and maintenance of various facilities | 49,711 | 19,841 | 271 | 2,478 | - | 17,092 |
| Total | \$ 1,193,331 | \$ 1,877,875 | \$ 15,292 | \$ 931,016 | \$ 23,139 | \$ 908,428 |

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices; printing equipment displayed at the Salem Print Plant; historic documents displayed at the Oregon State Archives; a museum of military artifacts at Camp Withycombe in Clackamas, Oregon; a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks; a collection of wildlife mounts displayed at various Department of Fish and Wildlife locations; and a collection of photographs portraying various Oregon locales displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

Insurance Recoveries

In the Statement of Activities, program revenues include insurance recoveries of the applicable functions as follows (in thousands):

Governmental activities:

| | |
|--|-----------------|
| Public Safety | \$ 747 |
| Natural Resources | 1,409 |
| Transportation | 1,948 |
| Administration | 304 |
| Judicial | 20 |
| Total insurance recoveries - governmental activities | <u>\$ 4,428</u> |

Business-type activities:

| | |
|---|-----------------|
| Lottery Operations | \$ 26 |
| University System | 1,011 |
| Other Business-type Activities | 17 |
| Total insurance recoveries - business-type activities | <u>\$ 1,054</u> |

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B. Discretely Presented Component Units

Activity for SAIF Corporation for the year ended December 31, 2007, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 2,922 | \$ 107 | \$ - | \$ 3,029 |
| Total capital assets not being depreciated | 2,922 | 107 | - | 3,029 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, Property and Equipment | 45,926 | 1,507 | 1,173 | 46,260 |
| Total capital assets being depreciated | 45,926 | 1,507 | 1,173 | 46,260 |
| Less accumulated depreciation for: | | | | |
| Buildings, Property and Equipment | 29,051 | 1,711 | 1,139 | 29,623 |
| Total accumulated depreciation | 29,051 | 1,711 | 1,139 | 29,623 |
| Total capital assets being depreciated, net | 16,875 | (204) | 34 | 16,637 |
| SAIF Corporation capital assets, net | \$ 19,797 | \$ (97) | \$ 34 | \$ 19,666 |

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2008, was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------|------------|-------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 59,053 | \$ 8,566 | \$ 7,744 | \$ 59,875 |
| Construction in Progress | 72,301 | 64,027 | 82,020 | 54,308 |
| Equipment not placed in service | 6,802 | 55,561 | 54,152 | 8,211 |
| Total capital assets not being depreciated | 138,156 | 128,154 | 143,916 | 122,394 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, Property and Equipment | 1,585,273 | 136,172 | 18,912 | 1,702,533 |
| Total capital assets being depreciated | 1,585,273 | 136,172 | 18,912 | 1,702,533 |
| Less accumulated depreciation for: | | | | |
| Buildings, Property and Equipment | 653,813 | 87,275 | 12,922 | 728,166 |
| Total accumulated depreciation | 653,813 | 87,275 | 12,922 | 728,166 |
| Total capital assets being depreciated, net | 931,460 | 48,897 | 5,990 | 974,367 |
| OHSU capital assets, net | \$ 1,069,616 | \$ 177,051 | \$ 149,906 | \$ 1,096,761 |

6. LEASES

A. Operating Leases. Operating leases are rental agreements where the payments are chargeable as rent and recorded as services and supplies expenditures. Should the Legislature disallow the necessary funding for a particular lease, each lease agreement contains a termination clause that provides for cancellation of the lease as of the end of the fiscal year. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation. Rental costs for such leases for the year ended June 30, 2008, for the primary government were \$88.1 million and for the component units were \$26 million.

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The following schedule summarizes the future minimum lease payments as of June 30, 2008 (in thousands):

| Year Ending June 30, | Primary Government | Component Units |
|-------------------------------------|-----------------------|--------------------|
| 2009 | \$ 86,378 | \$ 27,508 |
| 2010 | 71,184 | 28,400 |
| 2011 | 60,976 | 26,137 |
| 2012 | 44,545 | 26,924 |
| 2013 | 35,067 | 8,879 |
| 2014-2018 | 92,650 | 11,657 |
| 2019-2023 | 22,878 | 287 |
| 2024-2028 | 10,202 | 15 |
| 2029-2033 | 40 | - |
| 2034-2038 | 40 | - |
| 2039-2043 | 40 | - |
| 2044-2048 | 40 | - |
| 2049-2053 | 40 | - |
| Total future minimum lease payments | <u>\$ 424,080</u> | <u>\$ 129,807</u> |

B. Capital Leases. Capital leases are treated similar to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded. The liability for capital leases of property is included in the accompanying financial statements. Should the Legislature disallow the necessary funding for a particular lease, each lease agreement contains a termination clause that provides for cancellation of the lease as of the end of the fiscal year.

The assets acquired through capital leases are as follows (in thousands):

| Asset Class | Governmental Activities | Business-type Activities | Component Units |
|-----------------------------------|----------------------------|-----------------------------|--------------------|
| Buildings, Property and Equipment | \$ 4,074 | \$ 879 | \$ 14,172 |
| Less accumulated depreciation | (309) | (600) | (6,246) |
| Total | <u>\$ 3,765</u> | <u>\$ 279</u> | <u>\$ 7,926</u> |

The following schedule summarizes the future minimum lease payments and net present value of these minimum lease payments as of June 30, 2008 (in thousands):

| Year Ending June 30, | Governmental Activities | Business-type Activities | Component Units |
|---|----------------------------|-----------------------------|--------------------|
| 2009 | \$ 715 | \$ 151 | \$ 1,942 |
| 2010 | 721 | 11 | 1,899 |
| 2011 | 687 | 7 | 1,394 |
| 2012 | 685 | - | 758 |
| 2013 | - | - | 3,565 |
| Total future minimum lease payments | 2,808 | 169 | 9,558 |
| Less amounts representing interest | (328) | (5) | (1,318) |
| Present value of minimum lease payments | <u>\$ 2,480</u> | <u>\$ 164</u> | <u>\$ 8,240</u> |

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C. Lease Receivables. The State receives income from operating leases on land, property, and equipment that is leased to non-state entities. Rental income received was \$9.4 million for the year ended June 30, 2008, on assets valued at over \$18 million, net of \$7.8 million in accumulated depreciation. Minimum future lease revenue for non-cancelable operating leases at June 30, 2008, was (in thousands):

| Year Ending June 30, | Primary Government |
|------------------------------------|-----------------------|
| 2009 | \$ 8,925 |
| 2010 | 7,397 |
| 2011 | 6,775 |
| 2012 | 5,986 |
| 2013 | 5,454 |
| 2014-2018 | 16,901 |
| 2019-2023 | 15,292 |
| 2024-2028 | 15,304 |
| 2029-2033 | 14,888 |
| 2034-2038 | 13,278 |
| 2039-2043 | 1,411 |
| 2044-2048 | 990 |
| 2049-2053 | 366 |
| Total future minimum lease revenue | <u>\$ 112,967</u> |

7. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 provides the Oregon University System (OUS) with the authority to use interest income, dividends, or profits of endowments specifically for the higher education institution receiving the gift. Any donee restrictions must also be abided. Current OUS Board policy is to annually distribute for spending purposes 4 percent of the five-year moving average of the market value of the endowment fund. Securities may be sold to provide for the income needs. However, the original corpus of endowments may not be spent. For the year ended June 30, 2008, the net amount of appreciation available for authorization for expenditure was \$17.7 million. The amount of net appreciation is reported in the University System Fund as part of expendable net assets restricted for higher education.

Oregon Health and Science University

Oregon Revised Statutes 128.318, 128.322, 128.326, and 128.328 provide the Oregon Health and Science University (OHSU) with the authority to use the net appreciation of restricted endowments as established by the donee. Current OHSU Board policy is to allow distributions of 4.7 percent of the three-year moving average of the market value of the endowment pool. For the year ended June 30, 2008, the net amount of appreciation available for authorization for expenditure was \$81.1 million. The amount of net appreciation is reported as part of expendable net assets restricted for education.

8. SHORT-TERM DEBT

During the year, the State repaid the tax anticipation notes that were issued to manage the temporary cash flow deficits that resulted when the timing of required expenditures did not coincide with the timing of the collection of taxes and other revenues.

The Oregon Department of Forestry used a line of credit to provide temporary cash flow for the protection of forest lands and emergency fire suppression.

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The Oregon Department of Veterans' Affairs used a line of credit to help preserve certain refunding opportunities that may be used to finance veterans' housing loans. The revolving line of credit is with Key Bank National Association and interest rates on draws are based on a LIBOR (London Interbank Offered Rate) index or the bank's prime rate.

Short-term debt activity for the year ended June 30, 2008, was as follows (in thousands):

| | Beginning Balance | Issued | Repaid | Ending Balance |
|----------------------------------|----------------------|------------|------------|-------------------|
| Governmental activities: | | | | |
| Tax anticipation notes | \$ - | \$ 794,965 | \$ 794,965 | \$ - |
| Forestry line of credit | - | 5,000 | - | 5,000 |
| Business-type activities: | | | | |
| Veterans' Affairs line of credit | \$ 30,835 | \$ 31,000 | \$ 60,835 | \$ 1,000 |
| Total short-term debt activity | \$ 30,835 | \$ 830,965 | \$ 855,800 | \$ 6,000 |

9. LONG-TERM LIABILITIES

A. General Obligation Bonds. The State issues general obligation bonds to provide funds for a variety of projects as authorized by the Oregon Constitution. General obligation bonds are secured by a pledge of the full faith, credit, and taxing power of the State.

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund. Obligations issued for highway construction pursuant to article XI, section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorizes the creation of the Oregon War Veterans' Fund to finance farm and home loans for eligible veterans. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2). Article XI-J provides authorization to finance loans for the development of small-scale local energy projects. Issuance of general obligation bonds to finance higher education building projects is authorized in article XI-F (1). The preceding bonds of business-type activities are fully self-supporting. Article XI-G authorizes financing of higher education facilities and institution activities. Debt service requirements for these higher education obligations are financed through an appropriation from the General Fund.

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Notes to the Financial Statements

The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2008 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | |
|----------------------|-------------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | Principal ¹ | Interest |
| 2009 | \$ 24,920 | \$ 129,142 | \$ 96,380 | \$ 87,651 |
| 2010 | 31,185 | 128,117 | 47,546 | 88,727 |
| 2011 | 38,345 | 126,780 | 50,213 | 87,058 |
| 2012 | 46,160 | 125,055 | 57,421 | 85,447 |
| 2013 | 54,630 | 122,910 | 55,732 | 84,004 |
| 2014-2018 | 423,000 | 563,385 | 476,274 | 370,403 |
| 2019-2023 | 769,380 | 411,079 | 511,852 | 247,651 |
| 2024-2028 | 920,640 | 144,167 | 325,595 | 153,872 |
| 2029-2033 | 5,415 | 2,348 | 266,845 | 85,766 |
| 2034-2038 | 6,870 | 894 | 212,910 | 35,978 |
| 2039-2043 | - | - | 90,165 | 5,788 |
| 2044-2048 | - | - | 7,936 | 276 |
| Total | <u>\$ 2,320,545</u> | <u>\$ 1,753,877</u> | <u>\$ 2,198,869</u> | <u>\$ 1,332,621</u> |

¹ Includes a total of \$598.3 million of bonds with a variable interest rate based on the daily or weekly rate determination of the Remarketing Agent. The interest rate at the end of the fiscal year was 1.43 percent for \$430 million, 1.7 percent for \$119.4 million, 1.8 percent for \$10 million, and 1.45 percent for \$38.9 million.

B. Revenue Bonds. Authority for the State to issue revenue bonds is granted in the Oregon Revised Statutes (ORS). Revenue bonds are secured by a pledge of revenues derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

The State is authorized in ORS 286A.560 through 286A.580 and 348.716 to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, these lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvement of state fair facilities, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

Highway user tax bonds, authorized by ORS 367.615, are issued by the Department of Transportation for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes.

The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees as well as rental revenues support these bonds. The Economic and Community Development Department is authorized in ORS 285B.467 to 285B.479 to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund and is authorized in ORS 285B.572 to 285B.578 to issue revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds for both of these activities. All of these bonds for business-type activities are self-supporting.

Authority is granted in ORS 353.340 for the Oregon Health and Science University (OHSU), a discretely presented component unit of the State, to issue revenue bonds for the construction and refurbishment of facilities or the acquisition of equipment in accordance with ORS Chapter 287A. These revenue bonds are payable from the revenues of OHSU.

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Notes to the Financial Statements

The following schedule shows the debt service requirements for revenue bonds as of June 30, 2008 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | | Discretely Presented Component Units | |
|----------------------|-------------------------|------------|--------------------------|--------------|--------------------------------------|------------|
| | Principal ¹ | Interest | Principal ²⁻⁵ | Interest | Principal ⁶ | Interest |
| 2009 | \$ 97,399 | \$ 96,886 | \$ 52,157 | \$ 74,056 | \$ 6,023 | \$ 23,004 |
| 2010 | 90,471 | 85,241 | 130,179 | 71,714 | 10,046 | 22,814 |
| 2011 | 92,420 | 72,959 | 42,926 | 68,142 | 10,785 | 22,443 |
| 2012 | 96,742 | 68,668 | 43,038 | 66,405 | 11,296 | 21,982 |
| 2013 | 340,332 | 64,090 | 43,343 | 64,604 | 11,765 | 21,844 |
| 2014-2018 | 526,344 | 251,352 | 242,115 | 292,350 | 68,682 | 113,193 |
| 2019-2023 | 340,525 | 170,466 | 280,515 | 232,663 | 85,659 | 110,789 |
| 2024-2028 | 21,264 | 110,569 | 321,326 | 159,825 | 138,660 | 56,106 |
| 2029-2033 | 404,710 | 35,807 | 318,525 | 82,355 | 163,430 | 21,636 |
| 2034-2038 | - | - | 225,650 | 29,818 | - | - |
| 2039-2043 | - | - | 39,595 | 5,624 | - | - |
| 2044-2048 | - | - | 6,420 | 698 | - | - |
| Total | \$ 2,010,207 | \$ 956,038 | \$ 1,745,789 | \$ 1,148,254 | \$ 506,346 | \$ 413,811 |

¹ Includes a total of \$265.3 million of bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agents. The interest rate at the end of the fiscal year was 1.43 percent for \$105.1 million, 1.45 percent for \$160.1 million of bonds.

² Includes bonds with a monthly adjusted variable interest rate based on the London Interbank Offered Rate (LIBOR) plus 0.4 percent not to exceed 11 percent for \$2.5 million and not to exceed 11.5 percent for \$3.1 million. The interest rate at the end of the fiscal year for those bonds was 2.86 percent.

³ Includes bonds with a weekly adjusted variable interest rate based on the rate determination of the Remarketing Agent, not to exceed 12 percent. The interest rate at the end of the fiscal year was 1.54 percent for \$16.1 million, 1.55 percent for \$35 million, 1.64 percent for \$50 million, 1.66 for \$44.9 million, 1.75 percent for \$95.5 million, 1.77 percent for \$30 million, and 7.65 percent for \$14.8 million in bonds.

⁴ Includes \$51.1 million of bonds with a monthly adjusted variable rate of interest based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index rate plus 0.75 percent, not to exceed the one month LIBOR rate plus 0.23 percent or fall below 95 percent of the one month LIBOR rate. The interest rate at the end of the fiscal year was 2.37 percent.

⁵ Includes \$36.3 million of bonds with a monthly adjusted variable rate of interest based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index rate plus 0.8 percent, not to exceed the one month LIBOR rate plus 0.23 percent or fall below 95 percent of the one month LIBOR rate. The interest rate at the end of the fiscal year was 2.42 percent.

⁶ Includes \$143.9 million of bonds with a variable rate of interest adjusted every 35 days based on the auction rate. The rate as of fiscal year end was 4.77 percent.

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Notes to the Financial Statements

C. Certificates of Participation. ORS 283.085 to 283.092 authorize the State to enter into financing agreements through the issuance of certificates of participation. The State has issued certificates of participation to provide funds for the acquisition of computer systems, the acquisition of telecommunication systems, and for the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for both governmental and business-type activities.

The following schedule shows the debt service requirements for certificates of participation as of June 30, 2008 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | | Pension Trust Fund | |
|----------------------|----------------------------|------------|-----------------------------|----------|-----------------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$ 70,605 | \$ 49,558 | \$ 4,060 | \$ 1,294 | \$ 2,520 | \$ 334 |
| 2010 | 74,566 | 47,001 | 4,629 | 1,109 | 470 | 239 |
| 2011 | 69,826 | 43,382 | 3,734 | 909 | 500 | 214 |
| 2012 | 62,661 | 40,330 | 3,239 | 762 | 520 | 188 |
| 2013 | 59,324 | 37,446 | 2,761 | 637 | 550 | 160 |
| 2014-2018 | 274,123 | 146,832 | 7,672 | 1,774 | 2,510 | 338 |
| 2019-2023 | 228,070 | 83,853 | 2,155 | 871 | - | - |
| 2024-2028 | 149,345 | 35,701 | 2,150 | 275 | - | - |
| 2029-2033 | 70,410 | 7,150 | - | - | - | - |
| Total | \$ 1,058,930 | \$ 491,253 | \$ 30,400 | \$ 7,631 | \$ 7,070 | \$ 1,473 |

D. General Appropriation Bonds. During the 2003 legislative session, Senate Bill 856 authorized the State to issue general appropriation bonds. The State has issued general appropriation bonds for general government activities.

The following schedule shows the debt service requirements for general appropriation bonds as of June 30, 2008 (in thousands):

| Year ending June 30, | Governmental Activities | |
|----------------------|----------------------------|-----------|
| | Principal | Interest |
| 2009 | \$ 52,210 | \$ 15,188 |
| 2010 | 56,340 | 12,518 |
| 2011 | 60,545 | 9,623 |
| 2012 | 65,100 | 6,502 |
| 2013 | 69,900 | 3,136 |
| 2014-2018 | 28,195 | 696 |
| Total | \$ 332,290 | \$ 47,663 |

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E. Changes in Long-Term Liabilities. The following schedule summarizes the changes in long-term liabilities for governmental activities for the year ended June 30, 2008 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|------------|------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| General obligation bonds | \$ 2,329,370 | \$ 9,300 | \$ 18,125 | \$ 2,320,545 | \$ 24,920 |
| Revenue bonds | 2,067,808 | 46,309 | 103,910 | 2,010,207 | 97,399 |
| Certificates of participation | 1,066,299 | 59,737 | 67,106 | 1,058,930 | 70,605 |
| General appropriation bonds | 360,240 | - | 27,950 | 332,290 | 52,210 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (614) | - | (42) | (572) | - |
| For issuance premiums | 111,590 | 1,827 | 10,848 | 102,569 | - |
| On refunding | (28,044) | (530) | (3,933) | (24,641) | - |
| Total bonds/certificates payable | 5,906,649 | 116,643 | 223,964 | 5,799,328 | 245,134 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 2,949 | 134 | 603 | 2,480 | 587 |
| Claims and judgments | 1,059,418 | 55,367 | 43,784 | 1,071,001 | 120,720 |
| Compensated absences | 134,951 | 11,951 | 204 | 146,698 | 98,288 |
| Arbitrage rebate | 2,275 | 1,207 | 783 | 2,699 | 280 |
| Net OPEB obligation | - | 13,687 | - | 13,687 | - |
| Contracts, mortgages and notes | 25,696 | 7,050 | 23,664 | 9,082 | 5,555 |
| Total other liabilities | 1,225,289 | 89,396 | 69,038 | 1,245,647 | 225,430 |
| Total governmental activities long-term liabilities | \$ 7,131,938 | \$ 206,039 | \$ 293,002 | \$ 7,044,975 | \$ 470,564 |

Internal service funds predominantly serve the governmental funds. Therefore, long-term liabilities for them are included as part of the totals for governmental activities. The capital lease obligations are generally liquidated through the General Fund and the Environmental Management Fund. The claims and judgments liability is generally liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The compensated absences liability is generally liquidated through the General Fund, the Public Transportation Fund, the Health and Social Services Fund, and the Environmental Management Fund. The arbitrage rebate liability is generally liquidated through the Revenue Bond Fund and the Capital Projects Fund. The liability for contracts, mortgages, and notes is generally liquidated through the Environmental Management Fund and Health and Social Services Fund.

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The following schedule summarizes the changes in long-term liabilities for business-type activities for the year ended June 30, 2008 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|--------------|--------------|-------------------|------------------------|
| Business-type activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| General obligation bonds | \$ 1,992,596 | \$ 367,090 | \$ 160,817 | \$ 2,198,869 | \$ 96,380 |
| Revenue bonds | 1,660,960 | 488,695 | 403,866 | 1,745,789 | 52,157 |
| Certificates of participation | 30,591 | 5,543 | 5,734 | 30,400 | 4,060 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (3,179) | - | (439) | (2,740) | - |
| For issuance premiums | 36,485 | 8,024 | 3,071 | 41,438 | - |
| On refunding | (20,443) | (602) | (1,349) | (19,696) | - |
| Accreted interest | 72,318 | 7,970 | 10,138 | 70,150 | - |
| Total bonds/certificates payable | 3,769,328 | 876,720 | 581,839 | 4,064,210 | 152,597 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 335 | 17 | 188 | 164 | 147 |
| Claims and judgments | 1 | - | 1 | - | - |
| Compensated absences | 51,957 | 43,023 | 41,279 | 53,701 | 49,563 |
| Arbitrage rebate | 5,447 | 2,971 | 320 | 8,098 | 310 |
| Net OPEB obligation | - | 6,494 | - | 6,494 | - |
| Contracts, mortgages and notes | 35,652 | 34,075 | 60,997 | 8,730 | 6,849 |
| Lottery prize awards | 137,103 | 234,400 | 243,281 | 128,222 | 30,698 |
| Trust funds | 18,950 | 386,557 | 386,085 | 19,422 | 19,053 |
| Total other liabilities | 249,445 | 707,537 | 732,151 | 224,831 | 106,620 |
| Total business-type activities long-term liabilities | \$ 4,018,773 | \$ 1,584,257 | \$ 1,313,990 | \$ 4,289,041 | \$ 259,217 |

The following schedule summarizes the changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2008 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-----------|------------|-------------------|------------------------|
| Fiduciary fund activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| Certificates of participation | \$ 9,510 | \$ - | \$ 2,440 | \$ 7,070 | \$ 2,520 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 279 | - | 41 | 238 | - |
| On refunding | (229) | - | (29) | (200) | - |
| Total bonds/certificates payable | 9,560 | - | 2,452 | 7,108 | 2,520 |
| Other liabilities: | | | | | |
| Net OPEB obligation | - | 147 | - | 147 | - |
| Contracts, mortgages and notes | 1,899 | 226 | 197 | 1,928 | 64 |
| Total other liabilities | 1,899 | 373 | 197 | 2,075 | 64 |
| Total fiduciary fund activities long-term liabilities | \$ 11,459 | \$ 373 | \$ 2,649 | \$ 9,183 | \$ 2,584 |

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The following schedule summarizes the changes in long-term liabilities for the SAIF Corporation for the year ended December 31, 2007, and for the Oregon Health and Science University (OHSU) for the year ended June 30, 2008 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------|------------|-------------------|------------------------|
| Discretely presented component units: | | | | | |
| Bonds/certificates payable: | | | | | |
| Revenue bonds | \$ 518,750 | \$ - | \$ 12,404 | \$ 506,346 | \$ 6,023 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (2,569) | - | (179) | (2,390) | - |
| For issuance premiums | 977 | - | 49 | 928 | - |
| On refunding | (5,403) | - | (351) | (5,052) | - |
| Accreted interest | 23,933 | 2,490 | - | 26,423 | - |
| Total bonds/certificates payable - OHSU | 535,688 | 2,490 | 11,923 | 526,255 | 6,023 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 5,625 | 4,318 | 1,703 | 8,240 | 1,494 |
| Claims and judgments | 79,784 | 47,339 | 37,515 | 89,608 | 37,729 |
| Net OPEB obligation | - | 1,579 | - | 1,579 | - |
| Contracts, mortgages and notes | 33,698 | 683 | 2,869 | 31,512 | 1,657 |
| Obligations under life income agreements | 21,798 | - | 1,289 | 20,509 | - |
| Obligation to primary government | - | 1,951 | - | 1,951 | - |
| Reserve for loss and loss adjustment | 2,686,401 | 435,297 | 316,333 | 2,805,365 | 213,498 |
| Advances from Primary Government | 32,140 | 1,099 | 4,484 | 28,755 | 2,268 |
| Total other liabilities - SAIF and OHSU | 2,859,446 | 492,266 | 364,193 | 2,987,519 | 256,646 |
| Total SAIF and OHSU long-term liabilities | \$ 3,395,134 | \$ 494,756 | \$ 376,116 | \$ 3,513,774 | \$ 262,669 |

F. Demand Bonds. The following schedule shows State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, included in long-term debt, along with selected terms of their Standby Bond Purchase Agreements (SBPAs) at June 30, 2008 (dollars in thousands):

| Series | Outstanding Principal Amount | Liquidity Provider | Scheduled Termination Date | Maximum Interest Commitment | Commitment Fee |
|----------|---------------------------------|-----------------------|----------------------------------|--------------------------------|-------------------|
| 73 E & G | \$ 185,000 | JPMorgan Chase Bank | 6/30/2010 | 40 days/14% | 0.0850% |
| 73 F & H | 185,000 | Bayerische Landesbank | 11/30/2015 ¹ | 40 days/14% | 0.0850% |
| 83 | 30,000 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.0925% |
| 84 | 30,000 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.0925% |
| 85 | 49,000 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.0925% |
| 86 | 31,320 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.0925% |
| 87C | 9,045 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.0925% |
| 88B | 30,000 | Dexia Credit Local | 12/31/2014 | 34 days/12% | 0.0925% |
| 89B | 10,000 | Dexia Credit Local | 12/31/2014 | 34 days/12% | 0.0925% |
| 90B | 38,885 | Dexia Credit Local | 12/31/2013 | 34 days/12% | 0.2500% |

¹ Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

These bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs (DVA) Remarketing Agents are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a daily or weekly basis based on their applicable mode. The designated Remarketing Agent for such bonds will determine the interest rate borne by each series of bonds. DVA pays its designated Remarketing Agents a fee for this service.

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The following schedule shows State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, included in long-term debt, along with their respective remarketing fees, at June 30, 2008 (dollars in thousands):

| Series | Outstanding Principal Amount | Designated Remarketing Agent | Remarketing Mode | Remarketing Fee |
|----------|------------------------------------|---------------------------------|---------------------|--------------------|
| 73 E & G | \$ 185,000 | Morgan Stanley | Weekly | 0.048% |
| 73 F & H | 185,000 | JP Morgan Securities Inc. | Weekly | 0.050% |
| 83 | 30,000 | JP Morgan Securities Inc. | Weekly | 0.050% |
| 84 | 30,000 | JP Morgan Securities Inc. | Weekly | 0.050% |
| 85 | 49,000 | JP Morgan Securities Inc. | Daily | 0.070% |
| 86 | 31,320 | JP Morgan Securities Inc. | Daily | 0.070% |
| 87C | 9,045 | JP Morgan Securities Inc. | Daily | 0.070% |
| 88B | 30,000 | JP Morgan Securities Inc. | Daily | 0.070% |
| 89B | 10,000 | JP Morgan Securities Inc. | Daily | 0.070% |
| 90B | 38,885 | JP Morgan Securities Inc. | Weekly | 0.070% |

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPAs for Series 73, JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company, will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale (BLG) will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPAs. Under the SBPAs for Series 83, 84, 85, 86, 87C, 88B, 89B, and 90B ("Series 83-90B"), Dexia Credit Local will commit to purchase any unremarketed bonds, subject to certain conditions set forth in the SBPAs.

As of June 30, 2008, no tender advances or draws have been necessary to purchase any unremarketed bonds under any of the SBPAs. Therefore, no tender advances or draws are outstanding as of June 30, 2008.

If a tender advance did occur under the Series 73 SBPAs, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus one half of 1 percent, whichever is higher). If the tender advance was in default, interest would accrue at the bank's base rate plus 1 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years, if DVA elected to do so. If repayment of any tender advances does not occur within the specified time frames contained in Series 73 SBPAs, a default would have occurred.

If a tender advance did occur under the Series 83-90B SBPAs, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus one half of 1 percent, whichever is higher) for the time period up to 91 days; at the bank's base rate plus 1 percent for the time period covering 92 days up to the day before the end of the purchase commitment period; at the bank's base rate plus 2 percent for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2.5 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advanced is repaid. In most cases, tender advances are required to be paid off on the earliest to occur of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate or indexed rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. If repayment of any tender advance does not occur within the specified timeframes contained in the Series 83-90B SBPAs, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal and accrued interest, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPAs. As of June 30, 2008, DVA is required to pay a yearly commitment fee, which is payable quarterly in arrears.

G. No-Commitment Debt. No-commitment debt refers to debt issued to finance public purpose expenditures intended for beneficial ownership by private entities. Such debt bears the name of the State but is secured solely by the credit of the private entity and usually is serviced and administered by a trustee independent of

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the State. The State has no obligation for payment of this debt. Accordingly, this debt is not reported in the accompanying financial statements.

The following schedule shows no-commitment debt as of June 30, 2008 (in thousands):

Primary Government

| | |
|---|------------------|
| Economic and Community Development Department | \$ 408,603 |
| Oregon Facilities Authority | 1,047,866 |
| Housing and Community Services Department | 205,567 |
| Total Primary Government | <u>1,662,036</u> |

Discretely Presented Component Units

| | |
|--------------------------------------|---------------------|
| Oregon Health and Science University | 112,500 |
| Total No-Commitment Debt | <u>\$ 1,774,536</u> |

H. Debt Refundings. Occasionally, the State issues new long-term debt to extinguish the obligation of previously issued bonds or certificates of participation in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of new debt is placed in an irrevocable trust to provide for all future debt service payments on the old debt. The amount of these issuances has provided funds to pay the interest and principal when due on the refunded debt to and including the dates irrevocably fixed for redemption and to pay the principal amounts of the old debt to be redeemed on such irrevocable redemption dates. The trust account assets and liabilities for the defeased debt are not included in the accompanying financial statements.

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 2007, and June 30, 2008:

On November 20, 2007, the Oregon University System issued \$21.3 million in X1-F (1) 2007 Series F General Obligation Bonds with an average interest rate of 4.3 percent. These bonds refunded \$21.2 million of previously issued general obligation bonds with an average interest rate of 5.2 percent. The current refunding was undertaken to reduce the total debt service payments over the next 18 years by \$1.9 million and resulted in an economic gain of \$1.4 million.

On November 20, 2007, the Oregon University System issued \$7.5 million in XI-G 2007 Series G General Obligation Bonds with an average interest rate of 4.3 percent. These bonds refunded \$7.4 million of previously issued general obligation bonds with an average interest rate of 5.2 percent. The current refunding was undertaken to reduce the total debt service payments over the next 18 years by \$683 thousand and resulted in an economic gain of \$508 thousand.

On June 4, 2008, the Department of Administrative Services issued \$14.3 million in 2008 Series A Lottery Revenue Bonds with an average interest rate of 4.28 percent. The bonds were issued to refund \$15.1 million of outstanding 1999 Series B Lottery Revenue Bonds with an average interest rate of 5.3 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 7 years by \$1.5 million and resulted in an economic gain of \$1 million.

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I. Defeased Debt. The following schedule summarizes the amount of bonds and certificates of participation outstanding that are considered defeased as of June 30, 2008 (in thousands):

Primary Government

| | |
|--|---------------------|
| Department of Administrative Services | \$ 7,930 |
| Economic and Community Development Department | 36,064 |
| Department of Corrections | 131,505 |
| Department of Energy | 7,430 |
| Department of Environmental Quality | 8,095 |
| Employment Department | 645 |
| Oregon University System | 263,392 |
| Department of Education | 96,295 |
| Department of Parks and Recreation | 11,166 |
| Department of Transportation | 473,663 |
| Total defeased bonds and certificates of participation | <u>\$ 1,036,185</u> |

J. Arbitrage Rebate Liability. The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government.

The following schedule identifies outstanding arbitrage rebate liabilities as of June 30, 2008 (in thousands):

Primary Government

| | |
|---|------------------|
| Department of Human Services | \$ 254 |
| Department of Administrative Services | 323 |
| Economic and Community Development Department | 629 |
| Legislative Administration Committee | 66 |
| Military Department | 21 |
| Department of State Police | 15 |
| Department of Veterans' Affairs | 3,448 |
| Department of Corrections | 761 |
| Department of Energy | 115 |
| Department of Environmental Quality | 5 |
| Oregon Youth Authority | 7 |
| Oregon University System | 1,137 |
| Department of Education | 286 |
| Community Colleges and Workforce Development | 166 |
| Department of Forestry | 4 |
| Parks and Recreation Department | 66 |
| Department of Fish and Wildlife | 3 |
| Department of Transportation | 88 |
| Housing and Community Services Department | 3,403 |
| Total arbitrage rebate liability | <u>\$ 10,797</u> |

10. PLEDGED REVENUES

A. Unobligated Net Lottery Proceeds

The State has pledged future unobligated net lottery proceeds to repay \$694.2 million of lottery revenue bonds. Unobligated net lottery proceeds consist of all revenues derived from the operation of the Oregon State Lottery except for (1) revenues used for payment of prizes and expenses of the Lottery and (2) revenues previously dedicated to the payment of the State's Westside Lottery Bonds to fund reserves for the Westside Lottery Bonds and to pay related costs of the Department of Transportation with respect to the Westside Lottery Bonds. Proceeds from lottery revenue bonds provide financing for furthering economic development within the state, as well as for the improvement and expansion of state parks and school facilities. The bonds are payable solely from the pledged revenues and are payable through 2028. In fiscal year 2009, principal and interest payments on the bonds are expected to require approximately 13.8 percent of unobligated net lottery proceeds. The total principal and interest remaining to be paid on the bonds is \$943 million. Principal and interest paid for the current year and total unobligated net lottery proceeds were \$80.5 million and \$644.5 million, respectively.

B. Highway User Taxes and Vehicle Registration Fees

The State has pledged future highway user taxes and vehicle registration fees, net of administrative expenses, operating transfers and statutory transfers to counties, to repay \$1.4 billion of highway user tax revenue bonds. Proceeds from the bonds provide financing for the construction, reconstruction, improvement, repair, maintenance and operation and use of public highways, roads, streets, and roadside rest areas for the State. The bonds are payable solely from the pledged revenues and are payable through November 2032. Fiscal year 2009 principal and interest payments on the bonds are expected to require less than 23.6 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$2.3 billion. Principal and interest paid for the current year and total pledged revenues were \$94.6 million and \$506.9 million, respectively.

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11. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2008, consisted of the following (in thousands):

Due from Other Funds

| Due to Other Funds | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Oregon Rainy Day | Nonmajor Governmental Funds | Housing and Community Services | Veterans' Loan | University System | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Total |
|--------------------------------|------------------|----------------------------------|--------------------------|-----------------------------|------------------|---------------------|-----------------------------------|---|-------------------|----------------------|---------------------------------|------------------------------|--------------------|-------------------|
| General | \$ - | \$ 593 | \$ - | \$ 271 | \$ - | \$ 867 | \$ 516 | \$ - | \$ - | \$ 10 | \$ 4,512 | \$ 110 | \$ - | \$ 6,879 |
| Health and Social Services | 4,606 | - | - | 724 | 310 | - | 3,986 | - | - | 183 | 7,978 | - | - | 17,787 |
| Public Transportation | - | 200 | - | 12,551 | - | - | 1,785 | - | - | - | - | - | - | 14,536 |
| Environmental Management | 8 | - | 2,027 | - | 603 | - | 1,711 | - | - | 75 | - | - | - | 4,424 |
| Common School | - | - | - | 2,128 | - | - | 27,717 | - | - | - | - | - | - | 29,845 |
| Nonmajor Governmental Funds | 18,518 | 8,409 | - | 25,331 | - | - | 120,110 | 39 | - | 7,124 | - | 4,400 | - | 183,931 |
| Housing and Community Services | - | - | - | - | - | - | 51 | - | - | - | - | - | - | 51 |
| Lottery Operations | - | - | - | - | - | - | 169,393 | - | - | - | - | - | - | 169,393 |
| Nonmajor Enterprise Funds | 5,522 | 5,500 | - | - | - | - | 1,612 | - | 63 | - | - | 16 | - | 12,713 |
| Internal Service Funds | - | - | - | - | - | - | 972 | - | - | - | - | 4 | - | 976 |
| Fiduciary Funds | - | - | - | - | 3 | - | 797 | - | - | - | - | - | 1,260 | 2,060 |
| Total | \$ 28,654 | \$ 14,702 | \$ 2,027 | \$ 41,005 | \$ 916 | \$ 867 | \$ 328,650 | \$ 39 | \$ 63 | \$ 7,392 | \$ 12,490 | \$ 4,530 | \$ 1,260 | \$ 442,595 |

Advances to Other Funds

| Advances from Other Funds | General | Common School | Unemployment Compensation | Nonmajor Enterprise Funds | Internal Service Funds | Total |
|----------------------------------|------------------|------------------|------------------------------|------------------------------|---------------------------|------------------|
| General | \$ - | \$ - | \$ - | \$ 228 | \$ 757 | \$ 985 |
| Public Transportation | - | - | - | 24 | - | 24 |
| Environmental Management | - | 300 | - | - | - | 300 |
| Nonmajor Governmental Funds | 40,598 | 32 | 1,108 | - | - | 41,738 |
| University System | - | - | - | 18,694 | - | 18,694 |
| Nonmajor Enterprise Funds | - | - | - | 100 | - | 100 |
| Internal Service Funds | - | - | - | 322 | - | 322 |
| Total | \$ 40,598 | \$ 332 | \$ 1,108 | \$ 19,368 | \$ 757 | \$ 62,163 |

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to and from other funds are not expected to be repaid within one year.

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Interfund transfers reported in the fund financial statements as of June 30, 2008, consisted of the following (in thousands):

Transfers from Other Funds

| Transfers to Other Funds | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Nonmajor Governmental Funds | Housing and Community Services | Veterans' Loan | Unemployment Compensation | University System | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Total |
|---------------------------------|-------------------|----------------------------|-----------------------|--------------------------|------------------|-----------------------------|--------------------------------|----------------|---------------------------|-------------------|---------------------------|------------------------|-----------------|---------------------|
| General | \$ - | \$ 9,458 | \$ 23 | \$ 11,929 | \$ - | \$ 171,608 | \$ 4,647 | \$ 300 | \$ - | \$ 428,200 | \$ 146,692 | \$ 24 | \$ - | \$ 772,881 |
| Health and Social Services | 170 | - | 26 | 9,447 | 361 | 148,767 | - | - | - | 2,666 | 44,099 | 167 | - | 205,703 |
| Public Transportation | - | 4,489 | - | 31,409 | - | 119,553 | - | - | - | 19 | - | - | - | 155,470 |
| Environmental Management | - | 27 | 327 | - | 9,856 | 28,682 | - | - | - | 1,467 | - | 286 | - | 40,645 |
| Common School | - | - | - | 4,892 | - | 55,443 | - | - | - | - | - | - | - | 60,335 |
| Nonmajor Governmental Funds | 38,880 | 82,092 | 3,870 | 107,914 | - | 566,153 | - | 99 | 347 | 20,775 | 154 | 2,298 | 497 | 823,079 |
| Lottery Operations | - | - | - | - | - | 654,443 | - | - | - | - | - | - | - | 654,443 |
| Unemployment Compensation | - | - | - | - | - | 35,814 | - | - | - | - | - | - | - | 35,814 |
| University System | - | - | - | - | - | 70 | - | - | - | - | - | - | - | 70 |
| Nonmajor Enterprise Funds | 82,666 | 7,934 | - | 158 | - | 22,100 | - | - | - | - | 105,607 | 789 | - | 219,254 |
| Internal Service Funds | - | 1 | - | 247 | - | 7,154 | - | - | - | - | - | 33 | - | 7,435 |
| Total | \$ 121,716 | \$ 104,001 | \$ 4,246 | \$ 165,996 | \$ 10,217 | \$ 1,809,787 | \$ 4,647 | \$ 399 | \$ 347 | \$ 453,127 | \$ 296,552 | \$ 3,597 | \$ 497 | \$ 2,975,129 |

Amount per table above

Transfer of capital assets from Central Services Fund to general government

Total transfers to/from

| Transfers From Other Funds | Transfers To Other Funds |
|----------------------------|--------------------------|
| \$ 2,975,129 | \$ 2,975,129 |
| - | 17 |
| \$ 2,975,129 | \$ 2,975,146 |

In the fund financial statements, total transfers to other funds of \$2,975,146 are more than total transfers from other funds of \$2,975,129 due to a transfer of capital assets from the Central Services Fund to the general government, as described in the above reconciliation.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service or capital construction from the funds collecting the receipts to the appropriate funds, and (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

12. SEGMENT INFORMATION

Sections 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS) create the Special Public Works Fund and authorize the Oregon Economic and Community Development Department (OECDD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OECDD to issue revenue bonds to finance loans to municipalities for safe drinking water projects and waste water system improvement projects. Loan repayments are pledged to repay the outstanding bonds.

The Housing and Community Services Department (HCSD) is authorized by ORS 456.645 to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2) of the Oregon Constitution. Mortgage payments and fees as well as rental revenues support these bonds.

Summary financial information for the Special Public Works Fund, the Water Fund and the various funds that account for the bond activity with pledged revenues of the HCSD for the year ended June 30, 2008, is as follows (in thousands):

| | Special Public Works Fund | Water Fund | Mortgage Revenue Bonds | Homeowner Revenue Bonds |
|----------------------------------|---------------------------------|-------------------|------------------------------|-------------------------------|
| Condensed balance sheet | | | | |
| Assets: | | | | |
| Other current assets | \$ 96,660 | \$ 22,769 | \$ 52,971 | \$ 171 |
| Interfund receivables | - | 100 | - | - |
| Other noncurrent assets | 268,731 | 92,469 | 1,273,661 | 89,627 |
| Total assets | <u>\$ 365,391</u> | <u>\$ 115,338</u> | <u>\$ 1,326,632</u> | <u>\$ 89,798</u> |
| Liabilities: | | | | |
| Other current liabilities | \$ 50,490 | \$ 19,333 | \$ 46,920 | \$ 171 |
| Interfund payables | - | - | 106 | - |
| Other noncurrent liabilities | 101,779 | 41,195 | 1,207,727 | 89,583 |
| Total liabilities | <u>152,269</u> | <u>60,528</u> | <u>1,254,753</u> | <u>89,754</u> |
| Net assets: | | | | |
| Restricted | 6,700 | 165 | 71,879 | 44 |
| Unrestricted | 206,422 | 54,645 | - | - |
| Total net assets | <u>213,122</u> | <u>54,810</u> | <u>71,879</u> | <u>44</u> |
| Total liabilities and net assets | <u>\$ 365,391</u> | <u>\$ 115,338</u> | <u>\$ 1,326,632</u> | <u>\$ 89,798</u> |

| | Special Public Works Fund | Water Fund | Mortgage Revenue Bonds | Homeowner Revenue Bonds |
|--|---------------------------------|------------------|------------------------------|-------------------------------|
| Condensed statement of revenues, expenses, and changes in fund net assets | | | | |
| Loan interest income | \$ 12,996 | \$ 4,207 | \$ 50,427 | \$ - |
| Other operating revenue | 4,092 | 984 | 11,264 | 9,135 |
| Other operating expenses | (11,634) | (4,603) | (58,099) | (9,176) |
| Operating income (loss) | <u>5,454</u> | <u>588</u> | <u>3,592</u> | <u>(41)</u> |
| Transfers from other funds | - | - | 3,500 | 10 |
| Transfers to other funds | (11) | (2,413) | - | - |
| Change in net assets | <u>5,443</u> | <u>(1,825)</u> | <u>7,092</u> | <u>(31)</u> |
| Beginning net assets (as restated) | <u>207,679</u> | <u>56,635</u> | <u>64,787</u> | <u>75</u> |
| Ending net assets | <u>\$ 213,122</u> | <u>\$ 54,810</u> | <u>\$ 71,879</u> | <u>\$ 44</u> |

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| | Special Public Works Fund | Water Fund | Mortgage Revenue Bonds | Homeowner Revenue Bonds |
|---|---------------------------------|------------------|------------------------------|-------------------------------|
| Condensed statement of cash flows | | | | |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ 11,714 | \$ (4,023) | \$ (201,839) | \$ (10) |
| Noncapital financing activities | (33,373) | (7,922) | 260,937 | (228,489) |
| Investing activities | 4,205 | 823 | (69,773) | 227,336 |
| Net increase (decrease) | (17,454) | (11,122) | (10,675) | (1,163) |
| Beginning cash and cash equivalents (as restated) | 78,065 | 25,447 | 19,926 | 1,349 |
| Ending cash and cash equivalents | <u>\$ 60,611</u> | <u>\$ 14,325</u> | <u>\$ 9,251</u> | <u>\$ 186</u> |

| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|---|--|------------------------------|--|
| Condensed balance sheet | | | |
| Assets: | | | |
| Other current assets | \$ 9,055 | \$ 3,662 | \$ 32,627 |
| Capital assets | - | - | 42 |
| Accumulated depreciation | - | - | (41) |
| Other noncurrent assets | 176,487 | 35,288 | 239,473 |
| Total assets | <u>\$ 185,542</u> | <u>\$ 38,950</u> | <u>\$ 272,101</u> |
| Liabilities: | | | |
| Other current liabilities | \$ 8,117 | \$ 3,405 | \$ 31,437 |
| Interfund payables | - | - | 2 |
| Other noncurrent liabilities | 159,712 | 22,088 | 181,466 |
| Total liabilities | <u>167,829</u> | <u>25,493</u> | <u>212,905</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | - | - | 1 |
| Restricted | 17,713 | 13,457 | 59,195 |
| Total net assets | <u>17,713</u> | <u>13,457</u> | <u>59,196</u> |
| Total liabilities and net assets | <u>\$ 185,542</u> | <u>\$ 38,950</u> | <u>\$ 272,101</u> |

| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|--|--|------------------------------|--|
| Condensed statement of revenues, expenses, and changes in fund net assets | | | |
| Loan interest income | \$ 10,099 | \$ 2,732 | \$ 11,188 |
| Other operating revenue | 1,614 | 988 | 6,431 |
| Depreciation and amortization | - | - | (4) |
| Other operating expenses | (9,437) | (1,513) | (12,988) |
| Operating income (loss) | <u>2,276</u> | <u>2,207</u> | <u>4,627</u> |
| Transfers from other funds | 325 | - | - |
| Transfers to other funds | - | (1,881) | (117) |
| Change in net assets | <u>2,601</u> | <u>326</u> | <u>4,510</u> |
| Beginning net assets (as restated) | 15,112 | 13,131 | 54,686 |
| Ending net assets | <u>\$ 17,713</u> | <u>\$ 13,457</u> | <u>\$ 59,196</u> |

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| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|---|--|------------------------------|--|
| Condensed statement of cash flows | | | |
| Net cash provided (used) by: | | | |
| Operating activities | \$ 12,348 | \$ 9,969 | \$ 16,041 |
| Noncapital financing activities | (10,773) | (13,776) | (19,537) |
| Investing activities | (1,704) | 3,772 | 4,249 |
| Net increase (decrease) | (129) | (35) | 753 |
| Beginning cash and cash equivalents (as restated) | 724 | 673 | 46,925 |
| Ending cash and cash equivalents | \$ 595 | \$ 638 | \$ 47,678 |

13. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions. The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for units of State government, school districts, community colleges, and political subdivisions of the State. The Public Employees Retirement Board (Board), under the guidelines of Chapters 238 and 238A of the Oregon Revised Statutes, administers PERS, and it provides retirement benefits and cost-of-living adjustments as well as disability, postemployment healthcare, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets may legally be used to pay benefits to any of the plan members or beneficiaries for which the assets were accumulated. Participation in the PERS cost-sharing multiple-employer plan is mandatory for units of State government, community colleges, and school districts. PERS is an agent multiple-employer plan for political subdivisions that have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2008, PERS had 887 employer members consisting of:

| | |
|------------------------|------------|
| State Agencies | 117 |
| Community Colleges | 17 |
| School Districts | 263 |
| Political Subdivisions | <u>490</u> |
| | <u>887</u> |

The PERS defined benefit and defined contribution retirement plans are reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Effective April 1, 1996, the Oregon University System (OUS) established the Optional Retirement Plan (ORP) as an alternative to PERS. The ORP is a defined contribution retirement plan that is available to OUS unclassified faculty and staff who are eligible for PERS. In addition to PERS and ORP, the OUS offers a variety of retirement options including the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, the Federal Civil Service Retirement System, and the Federal Employees Retirement System.

Effective July 1, 1996, the Oregon Health and Science University (OHSU), which is a discretely presented component unit, established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a four-year period.

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B. Summary of Significant Accounting Policies. The financial statements for the PERS pension plans are prepared using the accrual basis of accounting. Plan member contributions and employer member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. The custodial agent determines the fair value of debt and equity securities using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued using evaluated bid prices. A small percentage of debt securities cannot be priced in this manner and, for these, a similar benchmark security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions.

Investments in private equities are reported at values provided by the general partners. Investments in private equities representing publicly traded securities are stated at the quoted market price. In establishing the estimated fair value of investments without readily determinable market values, the general partners assume a reasonable period of time for liquidation of the investments and take into consideration the financial condition and operating results of the underlying portfolio companies, their historical cost, prices of recent public or private transactions in similar companies, the nature of the investments, restrictions on marketability, holding periods, cash flows, market conditions, foreign currency and interest rate exposures, and other factors deemed appropriate.

Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals conducted every two to three years. Between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Investments in real estate partnerships are reported at values provided by general partners. In the absence of observable market prices, general partners determine fair value by using valuation methodologies considered to be most appropriate for the type of investment giving consideration to a range of factors that they believe would be considered by market participants including, but not limited to, the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

C. Funding Policies. The PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, coupled with employee contributions, are intended to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute; the Board, based on the required actuarially determined rate, establishes State employer contributions.

The following schedule summarizes the required State employee contributions and the required State employer pension contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans, as of July 1, 2007:

| | 238/238A | 238 | 238A Employer Rate | |
|---|---------------|------------------|-----------------------|-----------------|
| | Employee Rate | Employer Rate ** | General Service | Police and Fire |
| State Agencies * | 6.0% | 6.07% | 5.82% | 9.09% |
| State and Local Government Rate Pool | 6.0% | 7.88% | 5.82% | 9.09% |
| Judiciary | 7.0% | 18.70% | 5.82% | 9.09% |
| School Districts | 6.0% | 7.92% | 5.82% | 9.09% |
| Non-Pooled Political Subdivisions | 6.0% | 8.51% | 5.82% | 9.09% |

* A subcomponent of the State and Local Government Rate Pool

** Includes average rate off-set from lump-sum payment contributions made by employers that issued pension obligation bonds.

The State 238 and 238A combined employer contributions for the primary government for the years ended June 30, 2008, 2007, and 2006 were approximately \$33.2 million, \$43.4 million, and \$66.7 million, respectively. The State 238 and 238A combined employer contributions for the discretely presented component units for the years ended June 30, 2008, 2007, and 2006 were approximately \$16.5 million, \$26.7 million, and \$23.8 million, respectively. For both the primary government and the discretely presented component units, actual contributions were equal to the annual required contributions in each year. Contributions in excess of the annual required contribution in fiscal year 2004 resulted in a net pension asset that is being amortized using the level dollar closed method over 22 years and assumed interest rate of 8 percent. The employer pension cost of \$95.1 million for fiscal year 2008 includes \$45.4 million of amortization of the net pension asset.

Under the ORP Tier One, Tier Two and Tier Three, the employee contribution rate is 6 percent and is paid by OUS. The employer contribution rate for the ORP Tier One and Tier Two is 16.01 percent and for Tier Three is 5.82 percent as of June 30, 2008. The OUS employer contributions to the ORP for the years ended June 30, 2008, 2007, and 2006 were approximately \$24.3 million, \$26.2 million, and \$25.3 million, respectively. The OUS employee contributions to the ORP for the years ended June 30, 2008, 2007, and 2006 were approximately \$11.9 million, \$11.2 million, and \$10.4 million, respectively.

The OHSU Board of Directors determines contribution levels for the UPP. Employer contributions to the plan are 6 percent of salary and employee contributions are an additional 6 percent. Currently OHSU is funding employee contributions. The OHSU employer contributions to the UPP for the years ended June 30, 2008, 2007, and 2006 were approximately \$13.2 million, \$11.3 million, and \$10.7 million, respectively, and were equal to the employee contributions for each year.

14. OTHER POSTEMPLOYMENT BENEFIT PLANS

A. Public Employees Retirement System

Plan Description. The Public Employees Retirement Board (Board), as established by Oregon Revised Statute (ORS) 238.410, contracts for healthcare insurance coverage on behalf of Public Employees Retirement System (PERS) members. Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. PERS administers two separate defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA).

The RHIA is a cost-sharing multiple-employer OPEB plan in which 887 employers participate. Established through ORS 238.420, the plan provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan. The number of RHIA plan members was 38,053 as of June 30, 2008.

The RHIPA is a single-employer OPEB plan established through ORS 238.415. The plan provides payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died, and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIPA plan. The number of RHIPA plan members was 715 as of June 30, 2008.

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The PERS RHIA and RHIPa defined benefit OPEB plans are reported as other employee benefit trust funds of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Summary of Significant Accounting Policies. The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Plan investments are reported at fair value. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued using evaluated bid prices. A small percentage of debt securities cannot be priced in this manner and, for these, a similar benchmark security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar, considering current market conditions.

Investments in private equities are reported at values provided by the general partners. Investments in private equities representing publicly traded securities are stated at the quoted market price. In establishing the estimated fair value of investments without readily determinable market values, the general partners assume a reasonable period of time for liquidation of the investments and take into consideration the financial condition and operating results of the underlying portfolio companies, their historical cost, prices of recent public or private transactions in similar companies, the nature of the investments, restrictions on marketability, holding periods, cash flows, market conditions, foreign currency and interest rate exposures, and other factors deemed appropriate.

Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals conducted every two to three years. Between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Investments in real estate partnerships are reported at values provided by general partners. In the absence of observable market prices, general partners determine fair value by using valuation methodologies considered to be most appropriate for the type of investment giving consideration to a range of factors that they believe would be considered by market participants including, but not limited to, the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

Due to the inherent uncertainty and the degree of judgment involved in determining private equity and real estate valuations, the estimated fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments, and the recorded estimated fair values may differ from the amounts that eventually may be realized from the sale or other disposition of these investments.

Contributions and Funding. Both of the PERS OPEB plans are advance-funded through employer contributions established on an actuarially determined basis. All PERS employers currently contribute 0.37 percent of covered payroll to fund the RHIA. This contribution is included in the employer contribution rates discussed in Note 13. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027. The employers' aggregate actual contributions for the years ended June 30, 2008, 2007, and 2006 totaled approximately \$27.8 million, \$41.2 million and \$38.2 million, respectively, and were equal to the annual required contribution for each year.

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The funded status of the RHIA postemployment healthcare plan as of the most recent actuarial valuation date is as follows (dollars in millions):

Retirement Health Insurance Account (RHIA) Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 12/31/2007 | \$ 250.8 | \$ 499.6 | \$ 248.8 | 50.2% | \$ 7,721.8 | 3.2% |

State agencies currently contribute 0.10 percent of PERS covered salaries to fund the RHIPA. State employer contributions for the years ended June 30, 2008, 2007, and 2006 totaled approximately \$1.8 million, \$2.4 million, and \$2.2 million, respectively, and were equal to the annual required contribution for each year. The funded status of the RHIPA postemployment healthcare plan as of the most recent actuarial valuation date is as follows (in millions):

Retiree Health Insurance Premium Account (RHIPA) Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 12/31/2007 | \$ 7.8 | \$ 23.3 | \$ 15.5 | 33.6% | \$ 2,080.2 | 0.7% |

Actuarial Methods and Assumptions. The PERS postemployment healthcare benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2007 using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include an 8 percent per annum rate of return on the investment of present and future assets, projected payroll growth of 3.75 percent, a 2 percent cost of living adjustment, and a healthcare cost inflation adjustment graded from 8 percent in 2008 to 5 percent in 2013. The RHIPA plan uses an inflation assumption of 2.75 percent. However, the RHIA plan does not use an inflation assumption because statute sets the payment amount and does not adjust for increases in healthcare costs. The actuarial value of plan assets for both RHIA and RHIPA is equal to the fair market value of assets on the valuation date. The amount of net assets available for other postemployment benefits for RHIA and RHIPA at June 30, 2008 is \$237.7 million and \$7.3 million, respectively. Both PERS plans use the level percentage of payroll amortization method with a remaining closed amortization period of 20 years. Because both plans implemented GASB Statement No. 45 prospectively, there was no net OPEB liability at transition. In addition, there is no net OPEB obligation to report for either plan for the year ended June 30, 2008, because the actual contribution for the year equals the annual required contribution.

B. Public Employees Benefit Board

Plan Description. The State participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental, and vision benefits to eligible retired state employees and their beneficiaries. The PEBB Plan is an agent multiple-employer postemployment healthcare plan in which 11 employers participate. Chapter 243 of the Oregon Revised Statutes gives PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine postretirement benefit increases and decreases. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. Participating retirees pay their own monthly premiums based on a blended premium rate determined by pooling the retirees with active employees for insurance rating purposes, thus, creating an "implicit rate subsidy." This means that the healthcare insurance premiums paid by the State for active employees are higher than they would be if the premiums were based on active employees alone. As of June 30, 2008, PEBB Plan members consist of 47,724 active employees and 2,721 retired employees and beneficiaries receiving benefits. PEBB does not issue a separate, publicly available financial report.

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Summary of Significant Accounting Policies. The PEBB plan implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The net OPEB obligation for the year ended June 30, 2008 is \$20.3 million and is allocated to the participating funds based on each fund's proportionate share of the annual OPEB cost as determined by health insurance premium payments.

Contributions. State employer contributions and the contribution requirements of active employee plan members who are represented by labor unions are established and amended through negotiations during the bargaining process. State employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive, legislative, and judicial branches of State government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage.

Funding Policy. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits, including the rate subsidy, on a pay-as-you-go basis. Active employees do not make contributions. Administrative costs of the PEBB Plan are financed by up to 2 percent of employer and plan member contributions. For the year ended June 30, 2008, retired plan members contributed \$26.9 million through their required contributions of an average of \$823.56 per month.

Annual OPEB Cost and Net OPEB Obligation. The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2007, using the entry age normal cost method. The State's annual OPEB expense is based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over thirty years. Significant assumptions used in the actuarial valuation include a 4.5 percent per annum rate of return on the investment of present and future assets, and a medical healthcare cost inflation adjustment graded from an average of 11.2 percent in 2008 to an average of 5 percent in 2024. The dental healthcare cost inflation adjustment was graded from an average of 5.3 percent in 2008 to an average of 4 percent for 2017 and beyond. The plan has an open amortization period of 30 years and uses the level dollar amortization method. For the PEBB plan, GASB Statement No. 45 has been implemented prospectively; there was no net OPEB liability at transition. The following table shows the components of OPEB cost for the year, the amount actually contributed, and changes to the net OPEB obligation (in millions):

| | June 30, 2008 |
|---|------------------|
| Annual Required Contribution | \$ 34.8 |
| Interest on net OPEB obligation | - |
| Annual OPEB cost (expense) | 34.8 |
| Contributions made | (14.5) |
| Increase in net OPEB obligation | 20.3 |
| Net OPEB obligation – beginning of year | - |
| Net OPEB obligation – end of year | \$ 20.3 |
| Percent of annual OPEB cost contributed | 41.7% |

The funded status of the PEBB postemployment healthcare plan as of the most recent actuarial valuation date is as follows (in millions):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 7/1/2007 | \$ 0 | \$ 323.4 | \$ 323.4 | 0% | \$ 2,187.2 | 14.8% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results

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are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

C. Discretely Presented Component Units

SAIF Corporation (SAIF) administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for self and spouse until age 65. Retirees must pay the full premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent which SAIF pays all or a portion of its active employees' premiums. Benefit provisions are established by SAIF Corporation. The plan does not issue a separate, publicly available financial report.

Funding Policy. The plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. For the year ended December 31, 2007, the amount actually contributed to the plan and changes in SAIF's net OPEB Obligation (in thousands):

| | June 30, 2008 |
|---|------------------|
| Annual Required Contribution | \$ 391 |
| Interest on net OPEB obligation | - |
| Annual OPEB cost (expense) | 391 |
| Contributions made | (147) |
| Increase in net OPEB obligation | 244 |
| Net OPEB obligation – beginning of year | - |
| Net OPEB obligation – end of year | \$ 244 |
| Percent of annual OPEB cost contributed | 37.6% |

Actuarial Methods and Assumptions. The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of December 31, 2007, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.5 percent investment rate of return and an annual medical healthcare cost trend rate of 9 percent initially, reduced by 1 percent decrements annually to an ultimate rate of 5 percent in 2011. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll on an open basis for 15 years. GASB Statement No. 45 was implemented prospectively, and there was no net OPEB obligation at transition.

The funded status of the SAIF plan as of the most recent actuarial valuation date is as follows (in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 1/1/2007 | \$ 0 | \$ 2,972.8 | \$ 2,972.8 | 0% | \$ 50,229.2 | 5.9% |

Oregon Health and Science University (OHSU) administers a single-employer defined benefit healthcare plan. OHSU retiring employees are eligible to receive medical coverage for self and spouse until age 65. Retirees must pay the full premium for the coverage elected. The plan funding policy provides for contributions at

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amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees also make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

The following table shows the components of OHSU's annual OPEB cost for the fiscal year ended June 30, 2008, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation (in thousands):

| | June 30, 2008 |
|---|------------------|
| Annual Required Contribution | \$ 2,355 |
| Interest on net OPEB obligation | 118 |
| Annual OPEB cost (expense) | 2,473 |
| Contributions made | (1,138) |
| Increase in net OPEB obligation | 1,335 |
| Net OPEB obligation – beginning of year | - |
| Net OPEB obligation – end of year | \$ 1,335 |
| Percent of annual OPEB cost contributed | 46% |

The funded status of the OHSU plan as of the most recent actuarial valuation date is as follows (in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 1/1/2008 | \$ 0 | \$ 19,120 | \$ 19,120 | 0% | \$ 525,932 | 3.6% |

The actuarially determined amounts above use an assumed discount rate of 5 percent in the January 1, 2008 valuation. The assumed healthcare cost trend rate was 10 percent in 2008, declining gradually to 5 percent in 2018 and remaining at 5 percent thereafter. The actuarial cost method used is the projected unit credit method.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Therefore, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the types of benefits provided under the terms of the plan at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point.

15. DEFERRED COMPENSATION PLANS

A. Deferred Compensation Fund. The Oregon Savings Growth Plan (State Plan) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute (ORS) 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement Board (Board) administers the State Plan. As trustee of the assets, the Board contracts with ING, which recently acquired CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain participant records. The Office of the State Treasurer, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. Activity of the State Plan is reported as other employee benefit trust funds. As of June 30, 2008, the fair value of the investments was \$918.4 million.

B. SAIF Corporation Deferred Compensation Plan. SAIF Corporation administers a deferred compensation plan that is available to SAIF employees (SAIF Plan). Employees may enter into an individual agreement with SAIF Corporation to defer current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. The plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 2007.

Both the State Plan and the SAIF Plan are administered in compliance with Internal Revenue Code Section 457. Participants are not required to pay federal or state income taxes on the deferred earnings until those earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination due to death; disability; resignation; retirement; unforeseeable emergency; or by requesting a de minimus distribution from inactive accounts valued at less than \$5,000. Payments to participants may be made over a period not to exceed the life expectancy of the participant and/or alternate payee. The State and SAIF Corporation have no liability for losses under the deferred compensation plans, but they do have the prudent investor responsibility of due care.

16. TERMINATION BENEFITS

During the year ended June 30, 2008, the Oregon University System provided termination benefits through an early retirement program at Southern Oregon University (SOU). Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty who are at least 55 years of age. Faculty, who elect this plan, relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2008, twenty-seven retirees were participating in the plan.

An early retirement liability of \$182 thousand is included in current Notes, Contracts and Mortgages Payable and an early retirement liability of \$360.6 thousand is included in noncurrent Notes, Contracts and Mortgages Payable in the University System Fund. The liability is calculated using the discounted present value of expected future benefit payments, with a discount rate of 6 percent.

17. RISK FINANCING

A. Property, Liability, and Workers' Compensation Coverages for State Government. The State Services Division of the Department of Administrative Services administers the State's property and liability insurance programs. The division believes it is economical to manage the State's risks internally. The division minimizes purchases of commercial insurance for most risks of loss. The division sets aside assets for actuarially forecasted losses in the Insurance Fund. It is an internal service fund established under Chapter 278 of the Oregon Revised Statutes. The Insurance Fund services claims for these risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

The fund is backed by commercial policies, such as an excess property policy with a limit of \$400 million and a blanket commercial excess bond with a limit of \$20 million. The division purchases commercial insurance for specific insurance needs not covered by the fund. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

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All State agencies, commissions and boards participate in the fund. The division allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for claim costs and service fees. The division purchases retrospective paid loss plans that have cash flow and investment earnings advantages. The plans are ten years in length. The accumulated claim loss liability for the plans was approximately \$50 million as of June 30, 2008. Independent actuaries determine biennial loss forecasts.

The division reevaluates claim liabilities periodically, considering recently settled claims, the frequency of claims, and other economic and social factors. Liabilities include an amount for claims and legal expenses that have been incurred but not reported (IBNR). The estimation process is not exact since actual claim liabilities depend on inflation and changes in legal doctrines and damage awards. The division discounts claim liabilities at annual rates of 4 to 6 percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 20 to 25 years of State claims data and the projected numbers of employees, payroll, vehicles, and other property. They forecast ultimate losses by line of coverage.

The changes in the Insurance Fund balances of aggregate claim liabilities for the years ended June 30, 2008 and 2007 (in thousands) are:

| Fiscal Year | Beginning Balance | Increase in Claims or Estimate | Claim Payments | Ending Balance |
|-------------|-------------------|--------------------------------|----------------|----------------|
| 2008 | \$ 103,795 | \$ 50,383 | \$ (33,209) | \$ 120,969 |
| 2007 | 109,139 | 37,716 | (43,060) | 103,795 |

The June 30, 2008, balance of claim liabilities is reported as claims and judgments payable in the Central Services Fund.

B. Supplemental Workers' Compensation Insurance. The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These are accounted for as special revenue funds. The primary program is the Retroactive Program, established by Oregon Revised Statute 656.506. It provides increased insurance benefits to claimants or their beneficiaries when current payment requirements exceed benefits in effect at the time of injury.

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections based on historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, and investment and interest earnings pay for the programs.

The changes in the balances of aggregate claim liabilities for supplemental workers' compensation insurance for the years ended June 30, 2008 and 2007 (in thousands) are:

| Fiscal Year | Beginning Balance | Increase in Claims or Estimate | Claim Payments | Ending Balance |
|-------------|-------------------|--------------------------------|----------------|----------------|
| 2008 | \$ 955,559 | \$ 586 | \$ (6,168) | \$ 949,977 |
| 2007 | 1,037,462 | 12,888 | (94,791) | 955,559 |

Long-term liabilities were actuarially computed as of June 30, 2008, using the discounted cost valuation method. The discount rate for the Retroactive Program is 6 percent. This liability is reported as part of claims and judgments payable in the government-wide Statement of Net Assets.

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Notes to the Financial Statements

C. SAIF Corporation Workers' Compensation Insurance. The Legislature created SAIF Corporation (SAIF) to transact workers' compensation insurance and reinsurance business. SAIF is an independent public corporation, a discretely presented component unit of the State, and the largest workers' compensation insurer in Oregon. SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related loss adjustment expenses. In estimating the reserve for loss and loss adjustment expense, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF. SAIF discounts its case unpaid losses using a 3.5 percent discount rate.

The reserve for loss and loss adjustment expense increased during 2007 primarily due to growth in SAIF's book of business as both the number of policyholders and premium amount grew during the year. There was a favorable development of \$74.4 million related to prior accident years that was attributable to a number of factors. Medical cost escalation for 2007 was lower than expected, and the explicit assumption for medical cost escalation for the next three years was lowered to recognize the current short-term trend. Development for indemnity reserves related to prior accident years was also favorable due to lower tail factors for permanent total disabilities and fatal awards. The favorable loss adjustment expense development was largely attributable to a reduction in the number of payments and reserve changes performed by claims adjusters during calendar year 2007.

The changes in the balance of the reserve for loss and loss adjustment expense related to workers' compensation insurance underwritten by SAIF for 2007 and 2006 (in thousands) are:

| Calendar Year | Beginning Balance | Incurred Losses and Loss Adjustment Expenses | Loss and Loss Adjustment Expense Payments | Ending Balance |
|---------------|-------------------|--|---|----------------|
| 2007 | \$ 2,686,401 | \$ 435,297 | \$ (316,333) | \$ 2,805,365 |
| 2006 | 2,588,005 | 407,854 | (309,458) | 2,686,401 |

D. Oregon Health and Science University Self-Funded Insurance Programs. The Oregon Health and Science University (OHSU), which is also a discretely presented component unit of the State, maintains several self-funded insurance programs. Coverage for professional, general, automobile, directors and officers, and employment practices liabilities is provided through OHSU's solely-owned captive insurance company, OPS. OHSU has contracted with independent actuaries to estimate the ultimate cost of settlements related to the coverage provided by OPS. The liability reported for fiscal years 2008 and 2007 was calculated using a 5 percent discount rate.

In addition, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental and vision coverage. A third-party actuary has been utilized to assist in the estimation of OHSU's liability for the employee health programs related to claims payable and those claims incurred, but not yet paid or reported, of approximately \$14.1 million and \$7.8 million as of June 30, 2008 and 2007, respectively. These amounts are included in the current portion of claims and judgments payable in the accompanying financial statements.

OHSU purchases workers' compensation coverage from SAIF. The SAIF policy is written as a paid loss retrospective plan. OHSU's liability includes an IBNR factor based on annual actuarial projections.

In December 2007, the Oregon Supreme Court found unconstitutional certain provisions of the Oregon Tort Claims Act (OTCA) that limited OHSU's liability for the acts of its employees and agents in large damages cases. The impact of this decision has been included in the liability for self-funded insurance programs in the accompanying financial statements.

The total liability reported for OHSU's self-funded insurance programs was \$89.6 million and \$79.8 million for fiscal years ending June 30, 2008 and 2007, respectively. The amount of claim settlements did not exceed OHSU's self-insurance and commercial insurance coverage for each of the past three fiscal years.

18. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues, including discretely presented component units, are reported net of discounts and allowances in the accompanying financial statements.

The following schedule summarizes discounts and allowances in proprietary funds for the year ended June 30, 2008 (in thousands):

Primary Government

| Proprietary Funds | Type of Revenue | Amount |
|---------------------------|-----------------------|-------------------|
| Lottery Operations | Sales | \$ 992 |
| Unemployment Compensation | Assessments | 464 |
| Unemployment Compensation | Fines and forfeitures | 113 |
| University System | Charges for services | 96,859 |
| Nonmajor Enterprise Funds | Charges for services | 94,729 |
| Nonmajor Enterprise Funds | Sales | 5,729 |
| Nonmajor Enterprise Funds | Other | 1 |
| Internal Service Funds | Other | 10 |
| Total primary government | | <u>\$ 198,897</u> |

Discretely Presented Component Units

| Component Units | Type of Revenue | Amount |
|---|-----------------------------|-------------------|
| SAIF Corporation | Charges for services | \$ (1,198) |
| Oregon Health and Science University | Charges for services | 777,361 |
| Oregon Health and Science University | Gifts, grants and contracts | (175) |
| Total SAIF and Oregon Health and Science University | | <u>\$ 775,988</u> |

19. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments over \$10 million are included in total prior period adjustments in the accompanying financial statements:

Governmental Funds

Environmental Management Fund. Prior period adjustments were made for \$4.3 million to correct federal revenue accrued but not received in the prior year and for \$8.3 million for revenue recognized but not yet earned.

Health and Social Services Fund. A prior period adjustment for \$32.1 million was made to restate beginning fund balance for revenue collected and reported in a prior period that had not been earned.

Other Special Revenue Funds. Beginning fund balance was restated by \$19 million for revenue that should have been recognized in a prior period, but was deferred.

Proprietary Funds

Unemployment Compensation Fund. A restatement of beginning fund balance was made to correct a \$10.4 million overstatement of expenditures in the prior year.

20. FUND EQUITY

A. Net Assets Restricted by Enabling Legislation. The following schedule summarizes the State's net assets at June 30, 2008, that are restricted by enabling legislation (in thousands). All of these legislative restrictions are in the governmental activities.

| | Restricted Net Assets |
|---|--------------------------|
| Expendable Restricted Net Assets Restricted for: | |
| Residential Assistance | \$ 134,096 |
| Workers' Compensation | 14 |
| Education | 2,584 |
| Natural Resource Programs | 9,726 |
| Health Services | 21,104 |
| Nonexpendable Restricted Net Assets Restricted for: | |
| Education | 1,443 |
| Residential Assistance | 23,258 |
| Natural Resource Programs | 3,500 |
| Workers' Compensation | 250 |
| Total | <u>\$ 195,975</u> |

B. Reserved for Permanent Fund Principal. The amount reported as reserved for permanent fund principal in the governmental funds financial statements is higher than the prior fiscal year. The \$568 thousand increase is not supported by contributions to permanent funds in the current fiscal year because this amount should have been reported as contributions to permanent funds in prior fiscal years. The amount reported as reserved for permanent fund principal should have been \$568 thousand higher in the prior fiscal year. This did not result in reporting a prior period adjustment because beginning fund balance in total is correct.

21. COMMITMENTS

The State has made commitments that are to be funded with general funds, federal funds, lottery funds, or other funds resources. These commitments may take the form of grants, loans, or contracts for services. Commitments in effect as of June 30, 2008, and the anticipated sources of funding are summarized in the following table (in thousands):

| Purpose | General Funds | Federal Funds | Lottery Funds | Other Funds | Total |
|------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Community services contracts | \$ 268,683 | \$ 333,503 | \$ 962 | \$ 26,668 | \$ 629,816 |
| Grant and loan commitments | 175,897 | 138,643 | 89,456 | 261,159 | 665,155 |
| Personal services contracts | 67,464 | 28,972 | - | 19,358 | 115,794 |
| Equipment purchases | 11 | 45 | 17,614 | 637 | 18,307 |
| Indigent defense contracts | 68,481 | - | - | - | 68,481 |
| Total | <u>\$ 580,536</u> | <u>\$ 501,163</u> | <u>\$ 108,032</u> | <u>\$ 307,822</u> | <u>\$ 1,497,553</u> |

In addition, the Oregon Investment Council has entered into agreements that commit the Public Employees Retirement Fund (PERF) investment managers, upon request, to make additional investment purchases up to a predetermined amount. As of June 30, 2008, the PERF had \$8.7 billion in commitments to purchase private equity investments and \$2.1 billion in commitments to purchase real estate investments. These amounts are unfunded and are not recorded in the Statement of Fiduciary Net Assets.

22. CONTINGENCIES

A. Litigation. The State is involved in certain legal proceedings that, if decided against the State, may require significant future expenditures or may impair future revenue sources. Several legal claims remain pending in State courts challenging the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session. The legislation included a statutory remedy to a case that was brought on behalf of certain local government employers challenging previous actions by the Public Employees Retirement Board (PERB), *City of Eugene v. State of Oregon*. In that case, the trial court ruled that PERB had credited too much in 1999 earnings to certain member accounts. The decision was appealed by PERS members. The original parties in the case entered into a settlement agreement in which the PERB agreed to reduce the 1999 earnings credited to certain member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot due to the 2003 PERS legislation, court decisions, and the settlement agreement. In July 2006, the court vacated the underlying trial court judgment.

The Supreme Court's decision in the *City of Eugene* appeal affects certain pending cases that challenge PERB's actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and the PERS legislation. The decision most directly affects a class action suit filed by certain retirees which challenges PERB's recovery of funds from the 1999 over-crediting. The amount at issue is approximately \$800 million. In June 2007, the Multnomah County Circuit Court issued an opinion in favor of the retirees, ruling that the retirees were not liable for the repayment of any excess benefits and that PERS should treat the overpayments as administrative expenses. The State is in the process of determining its response to the court's decision. A similar issue is pending in another case filed by non-retired participants, whose account balances were lowered to adjust for the 1999 over-crediting. The amount at issue for the non-retirees is also approximately \$800 million.

Other legal claims pending against the State relate to Measure 37, which was approved by Oregon voters in November 2004. Measure 37 entitled certain landowners either to compensation for the decline in market value of their property as a result of certain land use regulations that were enacted or enforced by the State or local governments, or to have the land use regulations waived. Measure 37 did not apply to laws that were enacted to prevent nuisances or to protect public health or to laws that are required to comply with federal law. A property owner was not entitled to compensation for land use regulations that were enacted before the property owner or a member of the property owner's family acquired the property. Claimants had approximately two years after the effective date of Measure 37 or two years from the date the land use regulation was applied, whichever was later, to file a claim. As of December 5, 2007, the State had received 6,857 Measure 37 claims. Of those filed claims, 3,722 were closed by issuance of a final order or through withdrawal and 3,135 were being processed. More than \$19 billion in compensation had been requested under the claims filed with the State. The State denied claims or waived regulations for the claims submitted. Numerous lawsuits were pending as of December 2007 that asserted the State's actions in waiving State laws or denying claims were unlawful or violated the Oregon Constitution for various reasons.

Measure 49, which modifies Measure 37, was approved by voters in November 2007. Under Measure 49, Measure 37 claimants are not entitled to monetary compensation. However, if the claimant had proceeded far enough under Measure 37 to have a "vested right," the claimant may be entitled to continue to pursue the use authorized pursuant to its original claim under Measure 37. Otherwise, claimants may be entitled to relief in the form of home site approvals. Measure 49 also provides for transferability of development rights, revises the claims process for future land use regulations, and provides a method for determining the amount of compensation to which a claimant may be entitled. As of March 2008, 147 Measure 37 circuit court cases were pending and 65 had been dismissed. Some claimants are resisting motions to dismiss their Measure 37 cases, contending that Measure 49 does not apply to their claims or is unconstitutional. Several cases challenge the Legislative Assembly's referral of Measure 49 to voters. To date, the courts have ruled in the State's favor. Final resolution of the constitutional issues raised regarding Measure 49, the impact of Measure 49 on Measure 37 claims, and the amount of claims compensation that may eventually be paid is uncertain.

In December 2007, the Oregon Supreme Court upheld a challenge to the constitutionality of parts of the Oregon Tort Claims Act in *Clarke v. Oregon Health Sciences University* (OHSU). Under the Act, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the State. The liability of public bodies is capped at \$200,000 for individual claims. The public body may be substituted as a defendant in lieu of individual employees of the public body, limiting recovery for claims against individual employees. In *Clarke*, the plaintiff was severely disabled as a result of

the negligence of health professionals employed at OHSU. The alleged damages amount to approximately \$12 million. The Oregon Supreme Court concluded that, based on the amount of damages alleged, the substitution of OHSU for the individual defendants did not provide substantial remedy to the plaintiff and, therefore, violated Article I, Section 10 of the Oregon Constitution, which provides the right to a remedy to persons who are injured in their person, property, or reputation. The impact of the court's ruling in this case on other public bodies is uncertain. The decision may mean that the State must pay higher amounts to indemnify its employees because the State may not substitute its limited liability for its employees. The State is in the process of assessing its potential exposure to increased liability amounts, but initial estimates are that the ruling could result in an additional \$75 million in liability costs per biennium.

The State of Oregon is involved in negotiations related to a non-judicial allocation of costs associated with the investigation and clean-up of sediment contamination in the Portland Harbor. The U.S. Environmental Protection Agency (EPA) has listed a stretch of the lower Willamette River in Portland, Oregon on its National Priorities List. The boundaries of the Portland Harbor Superfund site have not been finally delineated but could likely include the lower eleven mile stretch of the Willamette River. There are over 200 parties, private and public, that may eventually bear a share of the costs related to investigation and clean-up of the site. The EPA has not identified any state agency as a potentially responsible party, but the State will likely participate in a non-judicial allocation of response costs. It is too early in the process to estimate the amount of liability that may be assessed for clean-up of the river, and what portion of that, if any, will be assessed against the State. Initial estimates of total costs range from approximately \$600 million to \$1 billion.

The Portland Harbor Superfund will also involve a separate allocation process for contamination-caused injuries to natural resources administered by tribal, federal and state trustees. Resource injuries are currently being assessed so that claims may be asserted against responsible parties. It is too early to estimate what, if any, share of the liability the State may ultimately bear for natural resource damages.

B. Debt Guarantees. Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt of Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. Short-term borrowing from eligible state funds may also satisfy the guarantee. Ultimate responsibility for debt service payments remains the responsibility of the respective district, and the Office of the State Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 2008, a total of \$2.4 billion in bonds was outstanding and guaranteed under these provisions.

C. Unemployment Benefits. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. There appears to be no practical method of estimating the amount of future benefit payments, which may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2008, totaled approximately \$8.9 million.

D. Federal Issues. The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with these regulations may result in the disallowance of related direct and indirect charges claimed under the grant agreements.

23. COMPARABILITY

In prior fiscal years, short-term investments classified as cash equivalents by the Public Employees Retirement System (PERS) custodial agent were reported as cash equivalents. In fiscal year 2008, PERS changed its accounting policy related to the definition of cash equivalents and reported these short-term investments as investments.

State of Oregon
Notes to the Financial Statements

During fiscal year 2008, PERS became aware of the following that had not been reported in accordance with GAAP in prior fiscal years: (1) derivatives reported in Investments, Investment Sales, and Accounts and Interest Payable were reported at notional value instead of fair value, and (2) short sales of securities were reported as Investments instead of obligations in Accounts and Interest Payable.

For comparability to fiscal year 2008, fiscal year 2007 balances in the Statement of Fiduciary Net Assets for Pension and Other Employee Benefit Trust should be restated as follows: Cash and Cash Equivalents reduced by \$2.4 billion, Investment Sales reduced by \$2.9 billion, Investments increased by \$464.8 million, Accounts and Interest Payable reduced by \$4.8 billion. The effect of these adjustments on Net Assets is zero for the fiscal year ended June 30, 2007. No other balances reported for 2007 were affected.

24. SUBSEQUENT EVENTS

A. Long-term Debt Issues. The following schedule summarizes long-term debt issues, including refunding, that have occurred since July 1, 2008 (in thousands):

General Obligation Bonds

| | |
|--------------------------------|-----------|
| Oregon University System | \$ 31,195 |
| Oregon Department of Education | 4,900 |
| Oregon Department of Energy | 15,445 |

Revenue Bonds

| | |
|---|-----------|
| Housing and Community Services Department | \$ 92,710 |
|---|-----------|

Certificates of Participation

| | |
|---------------------------------------|------------|
| Department of Administrative Services | \$ 119,285 |
|---------------------------------------|------------|

B. Bond Calls. The following schedule summarizes bond calls that have occurred since July 1, 2008 (in thousands):

General Obligation Bonds

| | |
|---------------------------------|----------|
| Department of Veterans' Affairs | \$ 1,790 |
|---------------------------------|----------|

Revenue Bonds

| | |
|---|------------|
| Housing and Community Services Department | \$ 368,615 |
|---|------------|

C. Interest Rate Swaps. On August 26, 2008, the Housing and Community Services Department (HCSD) entered into an interest rate swap transaction for Mortgage Revenue Bond Series 2008 I. The notional amount of the swap is \$34.7 million and the termination date is July 1, 2037. HCSD will pay the counterparty (Bank of America, NA) a fixed rate of 3.72 percent and receive a variable payment of 64 percent of LIBOR plus 31 basis points.

D. Tax Anticipation Notes Issuance. On July 1, 2008, the State issued \$741.2 million of full faith and credit Tax Anticipation Notes, 2008 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2007-2009 biennium.

State of Oregon
Notes to the Financial Statements

E. Debt Guarantees. Under Article XI-K of the Oregon Constitution, \$252 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2008, as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

| | |
|---|----------|
| Multnomah County School District 51J | \$ 6,070 |
| Marion County School District 4J | 7,005 |
| Douglas County School District 130 | 3,045 |
| Hood River County School District | 25,100 |
| Lane County School District 4J | 47,295 |
| Chemeketa Community College | 50,000 |
| Multnomah County School District 39 | 3,495 |
| Deschutes County School District 2J - 2008A | 72,530 |
| Deschutes County School District 2J - 2008B | 37,468 |

F. Economic Conditions. Continued disruption in the credit markets and overall declines in financial markets in the United States of America and internationally have resulted in significant declines in the value of investments subsequent to June 30, 2008. The decline in value could impact the funded status of the retirement funds and the overall investment earnings of the State.

The net asset values of the investment portfolios under the State Treasurer's management for the primary government, the Public Employees Retirement System (PERS), and SAIF Corporation (a discretely presented component unit of the State) at June 30, 2008, were \$11.3 billion, \$60.2 billion, and \$3.6 billion, respectively. The net asset values of the investment portfolios for the primary government, PERS, and SAIF Corporation, as of October 31, 2008, were \$9.8 billion, \$47.8 billion, and \$3.1 billion, respectively. Net asset value is not the same as fair value and does not include investments held outside the State Treasury.

The State Treasurer's investment portfolios had exposure to financial institutions that were either acquired by another institution or the U.S. Government, or filed for bankruptcy. From the State's perspective, the most noteworthy was Lehman Brothers, which filed for bankruptcy in September 2008. As of October 31, 2008, the unrealized losses related to Lehman Brothers for the primary government, PERS, and SAIF Corporation were \$196 million, \$89 million, and \$28 million, respectively.

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

_____, 2009

Oregon State Treasury
350 Winter Street N.E., Suite 100
Salem, Oregon 97301

Subject: \$_____ State of Oregon State Board of Education General Obligation Bonds,
2009 Series C

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Oregon (the “State”) of its State Board of Education General Obligation Bonds, 2009 Series C (the “2009 Series C Bonds”), which are in the aggregate principal amount of \$_____.

The 2009 Series C Bonds have been issued by the Oregon State Treasurer pursuant to Article XI-G of the Oregon Constitution and the applicable provisions of Oregon Revised Statutes Chapters 286A and 341 as amended (collectively, the “Statutes”), and have been authorized under a resolution adopted by the Oregon State Board of Education on March 19, 2009 (the “Resolution”) and an Issuance Certificate dated as of the date of the 2009 Series C Bonds (the “Certificate”) of the Oregon State Treasurer.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the 2009 Series C Bonds, except to the extent stated in the official statement, and we express no opinion relating thereto, except to the extent stated in the official statement.

We have examined the law, a duly certified transcript of proceedings of the State, prepared in part by us, relating to the issuance and sale of the 2009 Series C Bonds and other documents which we deem necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the State and other certified proceedings and certifications of the officials of the State and others furnished to us without undertaking to verify such representations and certifications by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The 2009 Series C Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon, the Resolution and the Certificate, and constitute valid and legally binding obligations of the State.

2. The full faith and credit of the State has been irrevocably pledged to the punctual payment of interest on and the principal of the 2009 Series C Bonds as the same become due and payable. The State is obligated to levy ad valorem taxes without limitation as to rate or amount on all taxable property within the State to meet debt service on the 2009 Series C Bonds to the extent other revenues are unavailable.

3. Interest on the 2009 Series C Bonds is excludable from gross income for federal income tax purposes. Furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The portion of this opinion set forth in the preceding sentence is subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986 (the “Code”), as amended, that must be satisfied subsequent to the issuance of the 2009 Series C Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The State has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the 2009 Series C Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2009 Series C Bonds.

[4. The initial public offering price for certain maturities of the 2009 Series C Bonds is less than the amount payable at maturity. This difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. The appropriate portion of the original issue discount that is allocable to the original and each subsequent holder is treated as interest upon sale, exchange, redemption, or payment at maturity of such 2009 Series C Bond and is excluded from gross income for federal income tax purposes under existing law to the same extent as the stated interest on the 2009 Series C Bonds.]

5. Interest on the 2009 Series C Bonds is exempt from Oregon personal income tax.

We note that the State has not designated the 2009 Series C Bonds as “qualified tax-exempt obligations” as defined in Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2009 Series C Bonds. Owners of the 2009 Series C Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2009 Series C Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

The portion of this opinion set forth in paragraph 1 above is qualified only to the extent that enforceability of the 2009 Series C Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors’ rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the State.

This opinion is based on existing law and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

Our opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms “law” and “laws” do not include unpublished judicial decisions, and we disclaim the effect of any such decision on this opinion. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to your attention.

This opinion is given solely for your benefit in connection with the 2009 Series C Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the 2009 Series C Bonds, nor may copies be furnished to any other person or entity, without the prior written consent of this firm.

We have served only as bond counsel to the State in connection with the 2009 Series C Bonds and have not represented any other party in connection with the 2009 Series C Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the State.

Respectfully submitted,

K&L GATES LLP

Lawyers

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APPENDIX D
CONTINUING DISCLOSURE CERTIFICATE

\$ _____
State of Oregon
State Board of Education
General Obligation Bonds
2009 Series C

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the State of Oregon (the “State”), acting by and through the State Treasurer (the “State”) at the request of the State Board of Education (the “Board”) for the Department of Community Colleges and Workforce Development (collectively, the “Issuer”) in connection with the issuance of its State Board of Education General Obligation Bonds, 2009 Series C (the “2009 Series C Bonds”), which are in the aggregate principal amount of \$ _____. The 2009 Series C Bonds are being issued pursuant to a resolution of the Board (the “Resolution”) and an Issuance Certificate of the State Treasurer dated the date of delivery of the 2009 Series C Bonds (the “Issuance Certificate”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the Issuer for the benefit of registered and beneficial holders of the 2009 Series C Bonds and to assist the underwriters in complying with paragraph (b)(5) of U.S. Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”).

Section 2. Annual Financial Information. The Issuer, as the “obligated person” for purposes of the Rule, hereby agrees to provide or cause to be provided at least annually to each nationally recognized municipal securities information repository for purposes of the Rule (the “NRMSIRs”) and to the state information depository, if any, located in the State of Oregon (the “SID”), the financial information regarding the Issuer of the type set forth (i) in Tables 13, 14, 16 through 19, 23, and 25 through 30 of Appendix A – “General Information Relating to the State of Oregon” of the final official statement dated _____, 2009 (the “Official Statement”); and (ii) in Appendix B – “Basic Financial Statements for the State for the Year Ended June 30, 2008” of the Official Statement.

Section 3. Timing. The annual financial information described in paragraph 2, above, will be available no later than nine months after the end of the preceding fiscal year, beginning with the Issuer’s fiscal year ending June 30, 2009. The Issuer’s current fiscal year ends June 30. The Issuer may adjust this fiscal year by providing written notice of the change of such fiscal year to each then existing NRMSIR and the SID, if any. The annual financial information described in paragraph 2, above, will include audited financial statements prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board as in effect from time to time; provided, however, that if audited financial statements are not available within nine months after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow when available.

Certain items of annual financial information may be provided by way of cross-reference to other documents previously provided to each of the NRMSIRs and to the SID, if any, or filed with the U.S. Securities and Exchange Commission. If the cross-referenced document is a final

official statement within the meaning of the Rule, it must be available from the Municipal Securities Rulemaking Board (the “MSRB”).

Section 4. Material Events. The Issuer agrees to provide or cause to be provided, in a timely manner, (i) to each NRMSIR or to the MSRB, and (ii) to the SID, if any, notice of the occurrence of any of the following events with respect to the 2009 Series C Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the 2009 Series C Bonds;
- (g) modifications to rights of holders of the 2009 Series C Bonds;
- (h) bond calls;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the 2009 Series C Bonds; and
- (k) rating changes.

The Issuer may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Issuer, such other event is material with respect to the 2009 Series C Bonds, but the Issuer does not undertake any commitment to provide such notice of any event except those events listed above.

Section 5. Failure to File Annual Financial Information. The Issuer agrees to provide or cause to be provided, in a timely manner, (i) to each of the NRMSIRs or to the MSRB and (ii) to the SID, if any, notice of a failure by the Issuer to provide the annual financial information described in Section 2 above on or prior to the time set forth in Section 3.

Section 6. Dissemination Agent. The Issuer may, from time to time, engage or appoint an agent to assist the Issuer in disseminating information hereunder (the “Dissemination Agent”). The Issuer may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent. The Issuer reserves the right to make any required filing by using (i) the MSRB’s Electronic Municipal Market Access system (EMMA) after July 1, 2009, (ii) the DisclosureUSA website maintained by the Municipal Advisory Council of Texas, or (iii) any similar system that is acceptable to the SEC.

Section 7. Termination of Obligations. Pursuant to paragraph (b)(5)(iii) of the Rule, the Issuer’s obligation to provide annual financial information and notice of material events, as set forth above, shall terminate if and when the Issuer no longer remains an “obligated person” with respect to the 2009 Series C Bonds or upon either the redemption in full of the 2009 Series C Bonds or the legal defeasance of the 2009 Series C Bonds. In addition, and notwithstanding the provisions of Section 9 below, the Issuer may rescind its obligations under this Certificate, in whole or in part, if (i) the Issuer obtains an opinion of nationally recognized bond counsel that those portions of the Rule that required the execution and delivery of this

Certificate are invalid, have been repealed, or otherwise do not apply to the 2009 Series C Bonds, and (ii) the Issuer notifies and provides to each of the NRMSIRs or the MSRB and to the SID, if any, a copy of such legal opinion.

Section 8. Enforceability and Remedies. The Issuer agrees that this Certificate is intended to be for the benefit of registered and beneficial holders of the 2009 Series C Bonds and shall be enforceable by or on behalf of any such holder; provided that, the right of any certificate holder to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of certificate holders representing at least twenty-five percent (25%) of the aggregate outstanding principal amount of the 2009 Series C Bonds. Any failure by the Issuer to comply with the provisions of this undertaking shall not be an Event of Default under either the Resolution or the Issuance Certificate. This Certificate confers no right, on any person or entity other than the Issuer, holders of the 2009 Series C Bonds, and any Dissemination Agent.

Section 9. Amendment. The Issuer may amend this Certificate without the consent of holders of the 2009 Series C Bonds under the following conditions:

- (a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person or type of business conducted;
- (b) This Certificate, as amended, would have complied with the requirements of the Rule at the time of the original issuance of the 2009 Series C Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment does not materially impair the interest of holders of the 2009 Series C Bonds, as determined either by parties unaffiliated with the Issuer (such as nationally recognized bond counsel), or by approving vote of holders representing at least sixty percent (60%) of the aggregate outstanding principal amount of the 2009 Series C Bonds, as applicable.

The Issuer shall provide to the NRMSIRs or the MSRB and to the SID, if any, notice of any amendment that changes the accounting principles followed by the Issuer in preparation of its annual financial information. The initial annual financial information after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.

Section 10. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon without regard to principles of conflicts of laws, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the _____ day of _____ 2009.

State of Oregon

Laura Lockwood-McCall, Director,
Debt Management Division, Oregon State Treasury

APPENDIX E

DESCRIPTION OF DTC AND THE BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2009 Series C Bonds. The 2009 Series C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered 2009 Series C Bond will be issued for each maturity of the 2009 Series C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17 A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"), DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2009 Series C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series C Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 Series C Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 Series C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the 2009 Series C Bonds, except in the event that use of the book-entry-only system for 2009 Series C Bonds is discontinued.

To facilitate subsequent transfers, all 2009 Series C Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2009 Series C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 Series C Bonds; DTC's records reflect only the identity of the Direct Participants to whose account such 2009 Series C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2009 Series C Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Series C Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2009 Series C Bonds. For example, Beneficial Owners of 2009 Series C Bonds may wish to ascertain that the nominee holding the 2009 Series C Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the 2009 Series C Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2009 Series C Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2009 Series C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2009 Series C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or the Fiscal Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009 Series C Bonds at any time, by giving notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2009 Series C Bond certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of Book-Entry-Only transfers through DTC (or a successor securities depository). In that event, 2009 Series C Bond certificates will be printed and delivered to DTC.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY-ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE STATE NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR BENEFICIAL OWNERS WITH RESPECT TO DTC'S RECORD KEEPING, PAYMENTS BY DTC OR PARTICIPANTS, NOTICES TO BE DELIVERED BY DTC, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2009 SERIES C BONDS.