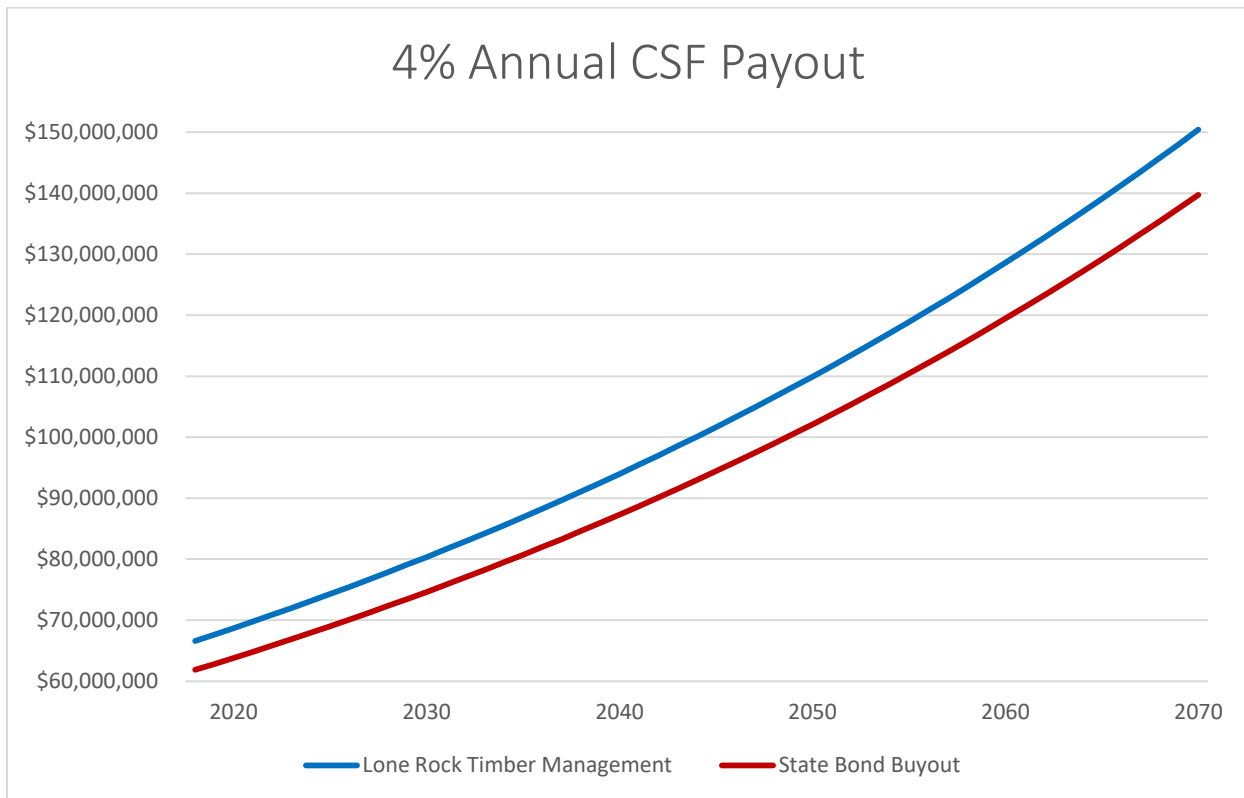


TO: Members of the Oregon Legislature
FM: John Charles for Cascade Policy Institute
RE: SB 5505/Elliott State Forest Bonds
DT: July 5, 2017

SB 5505 includes bond funding for many worthy projects. Unfortunately, it also includes authorization for the sale of \$101 million in Certificates of Participation for the purpose of “buying out” part of the Elliott State Forest (ESF), which we already own.

The State Land Board chose this option in May rather than taking a cash offer of \$220.8 million to sell most of the ESF, which is losing money for schools. While this “feel good” measure appeased many environmental interests, what has never been discussed publicly is the long-term **opportunity cost** of borrowing \$101 million and paying \$199 million in debt service over 25 years, instead of investing \$220.8 million of new money into the Common School Fund.

The graphic below attempts to do that over a 50-year period, using an average total return rate of 5.58% (the actual rate over the past 10 years). The gap between the blue and red lines is the estimated loss to schools in the annual payouts from the CSF. Note that the gap widens over time and **can never be made up**. Over the lifetime of the Fund – which is infinity – your approval of the bond sale will result in many **billions of dollars lost to Oregon schools**.



The chart above actually understates the problem because it does not include the \$199 million in debt service owed on the COPs. Debt service will be paid incrementally out of the general fund over 25 years. If the cost of debt service was billed to the School Fund, the gap above would be much greater.

The Common School Fund pays out 4% of annual earnings to school districts in twice-yearly payments. We calculated the loss of revenue to selected districts from the Governor’s proposal and converted the losses into something very tangible – the number of teachers that will never be hired:

Teachers Not Hired		
School District	2021-2070	Teachers
Beaverton	\$26,623,731	313
Coos Bay	\$1,879,784	22
Corvallis	\$6,292,846	74
Eugene	\$12,344,319	145
Grants Pass	\$3,800,542	45
Gresham-Barlow	\$8,239,191	97
Lincoln County	\$3,097,887	36
Medford	\$8,650,115	102
Monroe	\$426,741	5
Morrow County	\$1,177,855	14
North Santiam	\$1,463,512	17
Pendleton	\$1,989,424	23
Portland	\$32,885,008	387
Salem-Keizer	\$26,610,507	313
Sisters	\$682,471	8
Tigard-Tualatin	\$8,333,455	98
Tillamook	\$1,249,507	15

Virtually every legislator talks about wanting more money for schools. Here is your chance to convert talk into action. The ESF could still be sold, and funding for schools increased substantially through the miracle of compounding. All it takes is a vote to **delete the ESF bonds from SB 5505**.