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January 7, 2016

The Honorable Kate Brown
Oregon State Capitol
900 Court Street NE
Salem, OR 97301

Re: Recommendation to suspend SELP loans

Dear Governor Brown:

The State Energy Loan Program is in trouble. Launched in 1981, the program was designed to be self-sustaining, and it has the admirable goals of helping Oregon industry and individuals to conserve energy, and to develop opportunities in the new energy economy. As loans were repaid, debtors replenished the loan fund and also helped to retire public bonds associated with the program.

However, due to a series of defaults and delinquent loans, the loss reserves of the fund have been depleted and the deficit could grow wider. The Oregon Department of Energy's financial consultants estimate that cash infusions totaling at least \$15 million will be needed to cover the costs of its debt service payments from 2019 through 2034.

In other words, the State Energy Loan Program is no longer self-sustaining – and a bailout will likely divert resources from schools, public safety priorities, and other vital state programs.

I want to credit you and your office for launching a comprehensive review of the Department of Energy, which will include scrutiny of the administration of agency's lending practices. The Legislature also is reviewing the agency and has formed a special committee for that purpose.

I am recommending that you suspend lending through the still-operating State Energy Loan Program (SELP) until the program is thoroughly vetted and a recommendation is made to the Legislature about its long-term viability. My formal recommendation will be presented to the State Debt Policy Advisory Committee (SDPAC) when it meets on January 19.

This is not the first time Treasury has raised concerns about the sustainability of the SELP. In 2012, after a review of projected loan payments versus debt service requirements, I recommended to Governor Kitzhaber that the program's depleted loan-loss reserve be replenished to safeguard the State against future potential defaults. Instead, the program continued without augmented reserves.

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My previous recommendation was based in part on the default of an \$18 million loan to an ethanol facility, and a growing number of large, delinquent loans to private parties that were 91 days or more past due. Since that time, other large loans have also gone into default and have been written off as non-collectible, which has further deteriorated SELP's balance sheet and reserve balances.

For the fiscal year ending June 30, 2015, SELP reported a negative fund balance of approximately \$20 million which has sharply reduced the program's ability to make new loans without some form of additional short-term liquidity. To their credit, managers at the Oregon Department of Energy have committed to tightened loan underwriting standards and pursued delinquent borrowers.

The fact remains that starting in FY 2020 cash infusions will be required -- continuing through FY 2034 -- in order for the SELP program to meet its scheduled debt service obligations. The current estimate is that these payments would total at least \$15.3 million, but the timing and size of this cash infusion could change if additional outstanding loans become delinquent and/or are written off as uncollectible. Tapping the General Fund to make these required debt service payments will require funds to be allocated away from other State programs.

The State Debt Policy Advisory Commission provides a valuable service by tracking Oregon's financial health and protecting Oregon's credit rating by informing state officials about issues connected to state indebtedness, including the amount of debt that Oregon can prudently incur.

Public debt is a powerful tool to benefit our state, but it must be utilized wisely and with restraint. I believe the commission will join me in calling for a suspension of loans pending a full review of SELP's viability, given the program's liquidity needs and deteriorating financial condition. Please don't hesitate to call me with any questions, or if I can assist you in any way.

Sincerely,



Ted Wheeler
State Treasurer
Chair, State Debt Policy Advisory Commission

cc: State Debt Policy Advisory Commission
Senate President Peter Courtney
House Speaker Tina Kotek
Sen. Richard Devlin, co-chairman, Joint Committee on Ways and Means
Rep. Peter Buckley, co-chairman, Joint Committee on Ways and Means
Michael Kaplan, Director, Oregon Department of Energy
George Naughton, Acting Director, Department of Administrative Services