

OREGON TRANSPORTATION INFRASTRUCTURE BANK

ANNUAL REPORT

Submitted to:

Federal Highway Administration

and

Federal Transit Administration

Submitted by:

Oregon Department of Transportation

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Oregon Transportation Infrastructure Bank Annual Report 2006

This annual report for the Oregon Transportation Infrastructure Bank (OTIB) is being submitted to satisfy the requirements of Section 1.5(IV) of the State Infrastructure Bank (SIB) Cooperative Agreement between the Oregon Department of Transportation (ODOT), the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).

The annual report includes a brief history of the program, discussion of how the Department has marketed the program, summaries of completed loans, description of how the Department has met the goals outlined in its SIB application, discussion of the challenges facing the program, and unaudited financial statements for the fiscal year ended June 30, 2006.

With the exception of the financial statements included as Exhibit A, this annual report covers the Federal fiscal year (FFY) ending September 30, 2006.

History

On April 4, 1996 the Secretary of the U. S. Department of Transportation designated Oregon as one of the first ten states eligible to operate a SIB under Section 350 of the National Highway System Designation Act of 1995. The parties signed a SIB Cooperative Agreement on August 20, 1996.

The 1997 Oregon Legislature passed House Bill 2097, and it was signed into law on July 28, 1997. This bill established the Oregon Transportation Infrastructure Fund (OTIF) and provided expanded authority for the program. The provisions of the bill are codified in Oregon Revised Statutes (ORS) 367.010 to 367.050. Under the existing structure, the OTIB operates as a component of this Fund.

In 1999, the Oregon Legislature passed House Bill 2197, which became effective on October 23, 1999. Among other provisions, the bill authorized the OTIF to provide loan guarantees for eligible transportation projects which could be backed by a pledge of up to \$10 million of State Highway Fund revenues. The amount was increased to \$50 million in 2003 with the passage of Senate Bill 772, as described below. The provisions of House Bill 2197 and the increase established by Senate Bill 772 are codified in ORS 367.060.

In 2003, the Legislature approved Senate Bill 772, which became effective on September 22, 2003. The bill provides ODOT with tools to develop public-private partnerships for transportation projects and incorporated changes to ORS 367 that provide specific

authority for the OTIF to assist private entities. In addition, Senate Bill 772 increased the original ORS 367.060 limit of \$10 million to \$50 million.

In 2003, the Legislature also passed House Bill 2213 which updated and expanded the provisions of ORS Chapter 367. The bill, effective October 6, 2001, revised the sections that relate to the OTIF including changes to definitions, clarification of sources and uses of funds in the OTIF, modification of ODOT's ability to waive the state's right to withhold payments to local governments in the event of loan default, and clarification of the types of entities that are covered by OTIF guarantees.

The 2005 Legislative Assembly approved Senate Bill 71 which established the Multimodal Transportation Fund (MMTF) to provide grant and loan financing for air, marine, rail, and public transit projects. The bill, which was signed into law on August 29, 2005, is the basis for the new *ConnectOregon* program. Highway projects are not eligible for funding from the MMTF. MMTF funding is derived from the proceeds of Oregon lottery bond sales. The MMTF is unrelated to the activities of the OTIF. However, OTIB staff participate in administration of the loan component of the program, and the OTIB may provide loan funding for *ConnectOregon* grant applicants to meet a 20% match requirement, subject to funding availability.

OTIB Capitalization

At its May 22, 1996 meeting, the Oregon Transportation Commission (OTC) authorized capitalization of the OTIB by allocating \$10 million to the OTIF Highway Account. The \$10 million allocation consisted of approximately \$9 million in Federal funds matched with \$1 million in State funds. The Commission also approved formation of an OTIF Transit Account to be funded in the future.

The US Department of Transportation (USDOT) awarded the OTIB an additional \$5.51 million on June 19, 1997. These funds are available for highway or transit capital projects over a nine-year period and require a non-Federal match of approximately 10 percent (see below). As of the State's fiscal year ending June 30, 2001, the Department had deposited \$1,708,100 of these funds into the OTIF Highway Account and \$2,920,300 of these funds in the OTIF Transit Account. This \$2,920,300 represented the initial capitalization of the Transit Account. A draw of \$606,099 was received in FFY 05. An additional draw of \$220,400 was received in FFY 06 from the USDOT award. A final draw request on this allocation of \$55,100 was requested in FFY06.

In addition to \$94,597 of State Highway Funds, OTIB has matched disbursements of the USDOT award with allocations of Petroleum Violation Escrow (PVE) funds from the Oregon Department of Administrative Services and the Oregon Office of Energy. These are funds that accrue to the State under the Stripper Well (Oil Overcharge) settlement agreement. The OTIF transit account has received funds from PVE allocations totaling \$739,029.

During ODOT's fiscal year ended June 30, 2001, a new source of loan capital was utilized in order to supplement an ODOT grant of State Highway Fund moneys to the City of Rainier. Based on the eligibility of the proposed project, \$302,000 of earnings from the investment of proceeds of an ODOT bond sale was transferred to the OTIB. This new source of capital provided funding from entirely state sources so that the project could proceed under state requirements. The OTIB was allocated \$1,698,000 more of these funds in FFY 04, which resulted in total capital of \$2 million for the "State" SIB.

On January 20, 2005, the Oregon Transportation Commission approved a \$30 million non-revolving line of credit from the State Highway Fund (SHF) to provide sufficient lending capital for the OTIB. The Department executed a Memorandum of Understanding (MOU) that authorized transfers up to \$30 million to fund OTIB loans of \$3 million or more. The repayment terms of each disbursement to OTIB under the MOU are substantially the same as the repayment terms of the corresponding loans to borrowers funded by OTIB. The interest rate charged to OTIF from the SHF disbursements is equal to the per annum rate of the OTIB loan minus 30 basis points. The interest rate charged to borrowers for OTIB loans funded under the MOU is based on factors such as ODOT's borrowing rate for its bond issues, the applicant's ability to repay and other relevant factors. The balance as of September 30, 2006 owed by the OTIF to the SHF was \$12,127,500 with an expected maturity of November 15, 2020.

Marketing Efforts

As noted in previous annual reports, during the past few years ODOT has made a dramatic shift in the methods used to finance transportation system projects. Historically, the agency maintained, improved and increased system components on a pay-as-you-go basis. Beginning in 2001, the Legislature, recognizing a backlog of needed improvements, authorized a \$2.4 billion bonding program which will finance projects throughout the State.

This bonding program, known as the Oregon Transportation Investment Act (OTIA), has impacted the OTIB in three ways:

1. OTIB staff resources have been reduced for bank activities in order to support the bonding effort.
2. Because of the availability of OTIA "grant" funds for local government projects, a significant portion of market potential for OTIB loans has been eliminated, particularly as the result of \$300 million of OTIA III funds awarded to cities and counties for bridge projects in July, 2004.
3. The need to provide "match" money for OTIA grants and the desirability of expanding the scope of some OTIA-funded projects, have prompted some local agencies to use OTIB loans to close OTIA-related funding gaps.

Notwithstanding these factors, as time allows the Department continues to market the loan program in various ways:

- *Contacts with region and other ODOT staff.* The Department's five region offices generally are the initial points of contact for local governments seeking assistance, and OTIB's priority has been to provide information about the bank to region management and staff. Occasional meetings with the regions are held to provide updates and additional information about the OTIB. Meetings generally include the Local Programs Administrator, State Transportation Improvement Program (STIP) Coordinator and Planning Manager.
- *Presentations for local governments.* Presentations are given in the regions to local government representatives and other parties interested in transportation projects. These forums provide an opportunity to reach a large number of potential customers. Previously, OTIB staff attended meetings of eight of the State's nine Area Commissions on Transportation (ACTs) to keep current with their processes of reviewing and recommending projects for the OTIA bond program.
- *One-on-one marketing calls/visits.* OTIB staff continues to make calls and visits to local agency administrators and public works officials. When appropriate, there are follow-up marketing visits with potential borrowers. This provides an opportunity to learn about the customer's financing needs and is a convenient way to disseminate information about the OTIB. While this is probably the most effective way of marketing the OTIB, it is also the most time consuming. Leads developed through networking and media reports are handled in a similar manner. OTIB staff routinely review the State's newspapers and other publications using the internet.
- *Direct mailings.* As noted above, the OTIB regularly contacts ODOT program managers to promote the use of the program. Quite often these programs offer grant/reimbursement financing to local governments. When appropriate, the OTIB obtains applicant information from those programs in order to identify persons to contact about the loan program.
- *Contacts through other State agencies.* Several other State agencies work with communities throughout Oregon to develop the means to meet local infrastructure needs. These agencies include the Economic and Community Development Department (OECDD), the Department of Housing and Community Services, and the Oregon Office of Energy. Networking with these agencies provides the OTIB a source of referrals. The Governor's Office also coordinates a problem-solving effort directed by the State's Economic Revitalization Team and the OTIB staff assists this group whenever there is a need to develop a financing package for a local transportation project.

- *Connections with other ODOT programs.* The OTIB loan program is sometimes able to fulfill a need by extending loans to complete the funding of projects initiated in other areas. Such areas include the new *ConnectOregon* program, the OTIA highway and bridge programs and the public-private partnership program.
- The *ConnectOregon* program generates a significant number of new transportation projects throughout Oregon. The program does not compete with the OTIB because it specifically excludes the financing of highway projects and restricts public transit projects by excluding bus financing. Under the terms of *ConnectOregon*, grant recipients may receive a maximum award of 80% of the project cost. Some grant recipients need to borrow the remaining portion of the project costs of 20% or more. OTIF funds may potentially be used to finance the remaining portion, subject to availability.
- OTIA connections with the OTIF are described above in “Marketing Efforts,” and connections with the public-private partnership program are described below in “Meeting Goals Identified in ODOT’s SIB Application.”
- *Internet.* ODOT's Financial Services has developed a website that includes links to OTIB program information, applications and administrative rules and the OTIB Annual Report. Users are able to download copies of the OTIB’s program description and application forms.

Loan Agreements

A detailed Loan Agreement Summary for each closed loan has been submitted to FHWA. During the federal fiscal year ending September 30, 2006, the OTIB did not close any new loans. However, as of that date, the OTIB had made two loan commitments totaling \$5,200,000 and had an additional application in process for \$3,000,000.

Meeting Goals Identified in ODOT’s SIB Application

In the Department’s March 1996 application for designation as a State Infrastructure Bank, the Department stated:

“Creation of a State Infrastructure Bank (SIB) will assist ODOT in accomplishing its mission by allowing ODOT to:

- Leverage federal and non-federal transportation funds;
- Accelerate the development of planned projects;
- Improve communities’ ability to meet their own transportation needs (such as through the local government loan program);
- Encourage development of revenue generating projects; and
- Facilitate non-traditional projects such as public-private partnerships (PPP).”

ODOT has produced an exceptionally large number of ODOT highway projects in recent years, while expending significant sums in the process. In its ten years of operation, the OTIB has met its goals and assisted ODOT in accomplishing its mission in the following ways:

Leveraging Federal and Non-Federal Transportation Funds

The Department's SIB application indicated that this goal would be accomplished through the following:

Attracting Non-Traditional Sources of Capital – Twenty-eight loan applications have been processed by the OTIB, three of these twenty-eight are in process. Nineteen of the requests became loans. Federal/State grants were identified as the primary repayment source for six requests (all funded). Two loans (cancelled) would have covered initial project studies that were expected to lead to larger project loans that would refinance OTIB's loans. Gas tax allocations and other traditional transportation funding sources were slated to repay seven loans. The remaining loans were based upon non-traditional repayment sources such as user fees, tolls, transit operating revenues, traffic impact fees, property taxes, rental income and asset sales.

Generating Interest Income – State and federal funds deposited into the OTIF Highway and Transit Accounts generated interest income of approximately \$5 million through ODOT's fiscal year ending June 30, 2006. These funds are now available to fund additional loans.

Issuing Debt – Prior to FFY 2005, the OTIF had obtained sufficient capital to meet existing demand for loans without the need to issue debt. Given the large loan amount being considered by OTIB at that time for Clackamas County (\$12,250,000), a need arose for OTIB to consider debt as a source of capital. In order to achieve a lower cost of capital than through issuing bonds, OTIB entered into the \$30,000,000 non-revolving line of credit MOU with the SHF at a cost of 30 basis points. This was determined to be less expensive than the OTIF issuing its own debt. However, OTIF retains statutory authority to issue up to \$200 million in bonds if additional capital is needed for loans. Only \$50 million can be issued in the 05-07 biennium. Under existing statutes, the proceeds could be used to develop a pool of funds for loans to local governments. OTIF loan agreements have been structured to allow the Department to pledge loan repayments as security for OTIF bonds.

Recycling Funds – As repayments are received, these funds will be available for future loans.

Accelerating Projects

The Department continues to try to identify important local and state projects that can be advanced through the use of innovative financing techniques. Thus far, all OTIB loans

have accelerated projects from one to five years. This was particularly important when the program allowed recipients of TEA-21 funding to construct projects in advance of receiving the full six-year payout. The TEA-21 reauthorization and the 2005 SAFETEA-LU legislation are expected to create similar financing needs. The loan to Clackamas County allowed the county to accelerate their project by six years.

Improving Communities Ability to Meet Their Own Transportation Needs

ODOT and OTIB have worked on a one-on-one basis with many local communities to provide transportation solutions that ensure highway safety and support economic growth to communities. OTIB staff works with ODOT's *Local Government Section* which provides coordinated assistance to Local Agencies in their effort to develop and construct transportation projects. OTIB staff meets directly with local government officials to discuss loan programs and negotiate the best possible financing terms for both the communities and OTIB.

Encouraging Revenue Generating Projects

Many projects that have received OTIB loan funding have resulted in direct and indirect revenue generation. Revenues pledged for OTIB loans have included system development charges associated with development of highway projects, urban renewal agency revenues attributable to development around roadways, and fare box revenues for transit projects. OTIB loans have enabled communities to expand transportation services and facilities, leading to increases in revenues for those communities.

Promoting Partnerships with Local Governments

OTIB is a partnership of federal, State and local transportation interests. The OTIB selection process and approved loans demonstrate how the Bank has promoted partnerships with local governments.

Selection Process – The OTIB loan approval process includes project review by ODOT's region staff or other appropriate parties including local officials and other community representatives. Transit projects are reviewed by ODOT's Public Transit Division staff and then endorsed by the Public Transit Advisory Committee. The use of these resources helps to insure that projects selected for bank financing meet local transportation needs and are consistent with local transportation planning efforts.

Project Loans – Thus far, most loans have been made to local agencies for local projects. These loans have allowed cities, counties, transit agencies and a port authority to close financing gaps, expand project scopes, improve safety and, through project acceleration, avoid cost increases and construction-period disruptions.

Facilitating non-traditional projects

Public-Private Partnerships - Under current legislation, OTIF may be used to fund projects for any public or private entities. In 2003, the Legislature passed Senate Bill 772, which authorized ODOT's participation in public-private partnerships. OTIB staff assisted in the development of this legislation. ODOT formed a new unit, *Innovative Partnerships and Alternative Funding*, to carry out the intent of Senate Bill 772. Additionally in 2003, legislation was amended to allow OTIF to provide guarantees and other forms of credit enhancement that could potentially be used to support public-private partnerships. ODOT identified three major projects during FFY 2005, and issued a Request for Proposal (RFP) on each. OTIB staff participated in the RFP selection process. Work with selected private companies is ongoing within the Innovative Partnerships and Alternative Funding unit. OTIB recently approved its first loan for a public private partnership entity. Cascade Sierra Solutions, a non-profit corporation, which was created by the Lane Regional Air Protection Agency, has been approved for a \$3 million loan to fund retrofitting of *SmartWay* (air pollution and energy reduction measures) packages on to long haul trucks.

Challenges

Marketing – Maintaining and expanding awareness of OTIB is critical to ensure its long-term success. As noted above, marketing activities were limited during this reporting period. As resources allow, the OTIB will renew its outreach efforts in each region through one-on-one contacts and group forums to market the program to local governments and other potential borrowers.

Capitalization – With increasing loan demand, it is likely that additional funding may be needed to capitalize the OTIB. Recent loan repayments have increased cash levels significantly and reduced the level of additional capitalization that would have otherwise been required. Staff continues to evaluate options for obtaining additional capital for the OTIB such as with the \$30 million interfund MOU that subsequently supported the Clackamas County project. The sale of bonds remains an option to obtain additional funding.

Time to Move Projects from Approval to Closing – OTIB staff has taken a number of steps to decrease the amount of time required to complete the approval and loan closing processes. For example, the loan approval authority for smaller loan amounts has been delegated by the OTC to department staff, to reduce the number of days for approval. Additionally, the department uses pre-approved loan agreements and other documentation to expedite the closing of loans. However, projects financed through the program are complex. A number of parties are involved in each transaction (borrower, OTIB and region staff, other ODOT staff, bond and other legal counsel, etc.), and this requires extensive coordination. As discussed below, we will continue to consider steps that can be taken to expedite the approval and closing processes.

Flexible Funding Sources – Most of the funding available to ODOT is constitutionally or statutorily restricted. Originally there was not a source of match for federal transit funds.

The receipt of PVE funds to use as OTIF Transit Account match resolved that issue. Several highway projects have presented similar problems. In some cases, project sponsors have approached the OTIB staff regarding projects that are eligible for funding under Title 23, but are not eligible to use State Highway Fund revenues (the source of OTIF Highway Account match). Identifying alternate sources of non-federal match for specific projects complicates the loan application and approval processes.

Non-OTIB Financing and Partnering – As the result of formation of the Office of Innovative Partnerships and the *ConnectOregon* program, ODOT anticipates a renewed interest in alternative/innovative financing methods for improvements to the State's infrastructure. OTIB staff are active participants in exploring such options, which may include larger and more complex financings by the bank, expansion of OTIB capital, and broader authority for the bank.

Financial Statements

Unaudited financial statements for the OTIB's fiscal year ended June 30, 2006 are included as Exhibit A. These statements accurately reflect the financial condition of the OTIB.

OTIB Staff

Operational and management support for the OTIB is provided by ODOT's Financial Services Branch. The Department staff directly involved in the day-to-day operations of the OTIB as of September 30, 2006 were:

Dennis Strachota, Chief Financial Officer
Diane M. Hopper, Debt and Investment Manager
Tom Meek, Transportation Finance Officer
Anthony L. Buckley, Senior Financial Analyst

Exhibit A
Unaudited Financial Statements

**State of Oregon
Department of Transportation
Oregon Transportation Infrastructure Bank**

Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Unaudited

**State of Oregon
Department of Transportation
Oregon Transportation Infrastructure Bank
Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

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**State of Oregon
Department of Transportation
Oregon Transportation Infrastructure Bank
Balance Sheet
June 30, 2006**

Assets	<u>2006</u>
Cash and Cash Equivalents	\$19,756,913
Loans Receivable	<u>\$16,121,017</u>
Total Assets	<u>\$35,877,930</u>
 Liabilities and Fund Balances	
<i>Liabilities:</i>	
Accounts Payable	\$6,603
Advances From Other Funds	<u>\$12,127,500</u>
Total Liabilities	<u>\$12,134,103</u>
 <i>Fund Balances:</i>	
Reserved for Other Dedicated Programs	<u>\$23,743,827</u>
Total Fund Balances	<u>\$23,743,827</u>
Total Liabilities and Fund Balances	<u>\$35,877,930</u>

State of Oregon
Department of Transportation
Oregon Transportation Infrastructure Bank
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006

Revenues:	<u>2006</u>
Federal Revenues	\$205,782
Investment Income	<u>\$1,124,588</u>
Total Revenues	<u>\$1,330,370</u>
 Expenditures:	
Personal Services	\$52,752
Services and Supplies	\$707
Loan Interest	<u>\$229,999</u>
Total Expenditures	<u>\$283,458</u>
 Excess (Deficiency) of Revenues	
 Over (Under) Expenditures	 <u>\$1,046,912</u>
 Net Change in Fund Balance	 \$1,046,912
 Fund Balance Beginning	 <u>\$22,696,915</u>
 Fund Balance Ending	 <u>\$23,743,827</u>

State of Oregon
Department of Transportation
Oregon Transportation Infrastructure Bank
Notes to Financial Statements
June 30, 2006

1) Summary of Significant Accounting Policies

a. Reporting Entity

The Oregon Transportation Infrastructure Bank (OTIB) is a program administered by the State of Oregon Department of Transportation (ODOT or the Department). The Department is an agency within the Executive Branch of the State of Oregon. The OTIB operates under the authority of Oregon Revised Statutes (ORS) 367.010 to 367.060, and other related provisions. The OTIB is also governed by a State Infrastructure Bank Cooperative Agreement, dated August 20, 1996, between the Department, the Federal Highway Administration and the Federal Transit Administration. The Cooperative Agreement authorizes the Department to operate a State Infrastructure Bank pursuant to Section 350 of the National Highway System Designation Act of 1995.

Administrative responsibility for the OTIB is divided between the Oregon Transportation Commission (OTC) and the Department. The Commission has adopted Administrative Rules and other policies to govern project selection and approval. The Commission or the Department's Chief Financial Officer have approval authority for all projects funded through the OTIB. Responsibility for the day-to-day management of the OTIB has been delegated to the Chief Financial Officer.

Capitalization for the OTIB is available through federal funds, state funds and, if necessary, the sale of revenue bonds. In general, these funds are restricted in use for specific types of transportation projects.

The OTIB uses its resources to make loans and other forms of financial assistance available to cities, counties, ports, transit providers, special districts, tribal governments and state agencies for eligible transportation projects. OTIB loans involving the use of federal funds are restricted to use for projects eligible under Titles 23 and 49 of the Code of Federal Regulations.

As of January 1, 2000, the OTIB cash balances were transferred from the State Highway Fund to a cash account established for the OTIB in the State Treasury. The State Highway Fund was created by ORS 366.505 to clarify the intent of Article IX of the Oregon Constitution. The Department of Administrative Services includes the financial activity of the State Highway Fund on the State Financial Report in an administratively created fund called the Public Transportation Fund. No reporting information is provided in this report for the Department's State Highway Fund or the Department as a whole.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). In accordance with GASB Statement No. 20, the OTIB does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. These statements have been audited for Federal Compliance in accordance with OMB Circular A133.

In prior reports, the OTIB was accounted for as an Enterprise Fund. However, the Fund’s activity did not meet the criteria under GASB 34 to qualify as an enterprise fund. Therefore, on July 1, 2005 the fund was changed to a special revenue fund. It is now reported as a special revenue fund and is included in governmental funds along with its beginning balance.

c. Measurement Focus and Basis of Accounting

The financial statements of the OTIB are reported using the economic resources measurement focus and accrual basis of accounting. An economic resources focus means that all transactions and events that affect the fund's total economic resources (net assets) during the period are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash inflows and outflows.

d. Budgetary Accounting

Agency budgets are approved by the Legislature biennially. The Emergency Board of the Legislature approves any increases in the budgets that may be necessary during the interim. Legislatively approved limitations are financed from general governmental revenues or revenues of self-supporting activities of the State of Oregon. Limitations, except for Capital Construction, lapse at the end of each biennium. Appropriated budgets include expenditure authority created by appropriation bills and related estimated revenues. All funds are subject to legislative approval. Non-appropriated budgets and some non-limited financial activities are also subject to allotment control by the Department of Administrative Services. Beginning July 1, 1999, the OTIB lending activities were included in the non-limited other funds portion of the Department’s budget. The administrative expenses of the Bank are controlled by a limited other funds legislative authority.

e. Receivables

Receivables represent revenues earned or accrued in the current period. *Due To/From* other funds represent interfund receivables and payables from Other Funds within the Department.

f. Cash and Cash Equivalents

All deposits classified as cash and cash equivalents include cash on deposit with financial institutions and cash invested in the Oregon State Treasury – Oregon Short-Term Fund (OSTF).

The OSTF is maintained by the State Treasurer and is an internal cash and investment pool for state agency participants and an external cash and investment pool for local government participants. The OSTF is not registered with the United States Securities and Exchange Commission as an investment company.

2) Provision for Loan Losses

As of June 30, 2006, all loans in the OTIB portfolio were current. In order to provide a reserve for potential future loan losses, the Department has implemented a policy that allows establishment of a reserve account. The policy allows the Department to increase or reduce the cumulative loss reserve to reflect changes in portfolio status. For the year ended June 30, 2006, the Department's analysis of the portfolio determined that an adequate level of reserves exist to support the loan balances.

3) Undistributed Loan Proceeds

The OTIB acts as the agent for the borrower to distribute loan proceeds throughout the life of the construction project.

Loan proceeds are held in the OTIB cash account. Disbursements are generally made from the account for project-related costs when borrowers submit approved invoices to the Department. Prior to May 2003, at the time of loan closing loan proceeds were placed in a Borrower's Account and would earn interest at the same rate as the Local Government Investment Pool (LGIP) administered by the Oregon State Treasury. The investment income was credited to each borrower and was available to be used for additional project-related costs, if necessary. Beginning in May 2003, the use of Borrower's Accounts was discontinued. The amount of cash held that was committed to financing construction projects for the fiscal years ended June 30, 2006 was \$313,805.

4) Administrative Expenses

The Department's Financial Services provides staff and other operational support (office space, professional services, supplies, equipment, etc.) for the OTIB. The Department began charging the OTIB for a portion of the Department's costs of providing this support in the fiscal year ended June 30, 2000. Administrative expenses charged to the OTIB for the fiscal year ended June 30, 2006 were \$229,999.

5) Cash and Cash Equivalents

The State's investment policies are governed by Oregon Revised Statutes (ORS) and the Oregon Investment Council. The bank balance of the combined unrestricted and restricted cash on deposit with the State Treasury for the OTIB at June 30, 2006 was \$19,756,913.

6) Operating and Non-Operating Revenues and Expenses

The definition of operating and non-operating revenues and expenses for the Bank is based on whether the activity is directly related to the nature of the business being performed. Three activities are currently defined as non-operating: interest revenue earned at the State Treasury on cash balances in the Bank's cash account; Federal revenues; and transfers in from other funds.

7) Bonds Issued and Outstanding

As authorized by ORS 367.025 and 367.030, the OTC and the Department may elect to issue revenue bonds for the purposes of providing capital for the OTIB. As of the date of this report, no such bonds have been issued or authorized.

8) Litigation

Any litigation during the ordinary course of business regarding the OTIB lending activities would be represented by the Attorney General of the State of Oregon. The OTIB was not a party to any litigation as of June 30, 2006.