S&P Global
Ratings

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Summary:

Oregon; Appropriations; General Obligation

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Credit Profile		
US$140.79 mil GO bnds (article XI-Q) (tax-exempt) ser 2023J due 11/01/2043		
Long Term Rating	AA+/Stable	New
US$18.065 mil GO bnds (article XI-Q) (taxable) ser 2023K due 11/01/2038		
Long Term Rating	AA+/Stable	New
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Oregon's approximately $140.8 million general obligation (GO) bonds, series 2023J (XI-Q for state projects, tax-exempt), and approximately $18.1 million GO bonds, series 2023K (XI-Q for state projects, federally taxable).
- We also affirmed our 'AA+' rating on Oregon's GO bonds outstanding and our 'AA' rating on the state's appropriation-backed (certificates of participation [COPs]) debt outstanding. We rate Oregon's appropriation debt one notch lower than the state's general creditworthiness, reflecting the appropriation risk associated with the annual payment.
- At the same time, we also affirmed our 'AA+/A-1' rating on Oregon's various variable-rate demand GO bonds outstanding, which receive liquidity support in the form of a standby purchase agreement (SBPA) with U.S. Bank N.A. and our 'AA+/A-1' rating on the series 2022E variable-rate demand GO bonds that receive liquidity support in the form of an SBPA with JPMorgan Chase Bank N.A. The long-term component of the rating on certain variable-rate bonds reflects our view of the state's credit characteristics, while the short-term component of the rating reflects our view of the liquidity support in the form of an SBPA by their respective provider.
- The outlook on all ratings is stable.

Security

The series 2023J and 2023K bonds are direct general obligations of the state, secured by its full faith and credit and taxing power, except for the ad valorem taxing power of the state.

The series 2023J and 2023K bonds will be used to finance various capital projects throughout the state.

Credit overview

In our view, Oregon's credit profile is supported by its diverse economy and population growth over the past decade, which has led to revenue growth and its reserves reaching historical highs, although the state's population growth has been slowing in recent years and is now expected to be more in line with the U.S. overall. The state's credit fundamentals are also supported by proactive financial management, including quarterly economic and revenue forecasting, and the executive and legislative branches' demonstrated ability to make timely expenditure reductions to maintain structural balance. This is particularly important to Oregon's long-term credit quality, given our view that the state derives a high proportion of its operating revenue from personal and corporate income tax, which we see as having potentially higher exposure to revenue volatility during economic and market downturns. We view Oregon's debt burden as moderate-to-moderately high, but believe its current share of fixed costs remain manageable within its budget in the near term.

Oregon's budgetary reserves are at historical highs, and officials estimate that the 2021-2023 biennium ended with a rainy day fund (RDF) of $1.4 billion and education stability fund (ESF) balance of $710.8 million, bringing combined balances to $2.06 billion. This equates to 7.2% of biennial general and lottery fund appropriations (14.4% on an estimated annualized basis), which we consider strong. The 2023-2025 legislatively adopted biennium budget also includes an automatic transfer to the state's reserves, increasing the RDF to $1.9 billion and the ESF to $1 billion, or a strong combined 8.6% of biennial general and lottery fund appropriations (17.2% on an estimated annualized basis). In our opinion, Oregon's strong reserves could provide the state with additional flexibility to stabilize the budget should slower revenue growth in the 2023-25 biennium result in budgetary pressure.

The state's legislatively adopted total budget for 2023-25 biennium represents a 3.6% decrease compared with the 2021-23 legislatively approved budget. The decrease in the total funds budget is primarily attributable to lower federal funds and corresponding expenditures that were driven by COVID-19 in the previous biennium. At the same time, the general and lottery funds recognized a 17.2% increase compared with the previous biennium. Human services experienced the largest increase, at 41%, compared with the 2021-2023 legislatively adopted biennial budget. The state also increased its K-12 education funding by nearly $1 billion. Education and health and human services expenditures make up 75% of the general fund and lottery fund biennial expenditures.

Oregon's September 2023 Economic and Revenue Forecast calls for Oregon to experience a slow-growth scenario due to the underlying strength in the economy and slowing inflation. After the state recognized robust revenue growth in the 2021-23 biennium, the state's revenue outlook appears to have stabilized. The September forecast revised its general fund net available resources upward by $882.3 million for the 2023-2025 biennium compared with the May forecast, partially driven by increased corporate income tax collections and a larger ending balance from the 2021-23 biennium. As a result of the state's record revenues in the 2021-23 biennium, it certified its largest personal income tax (PIT) "kicker" at $5.6 billion. We believe the state's constitutional kicker provision, which rebates growth in PIT back to taxpayers after exceeding 2% of the close-of-session budget forecast threshold, as a potential limitation on the state's ability to build reserve balances during good economic times and cushion its finances against potential moderate-to-severe economic downturns. The state has incorporated the kicker into its forecasts, and we believe that its proactive management will be important in navigating any potential budgetary pressure from the record kicker amid its increased expenditures and expectations for less-robust revenue growth in the 2023-2025 biennium.

S&P Global Economics believes that the U.S. economy will slip below current trends for an extended period, and expects that the economy will be considerably weaker in 2024 and that inflation will be closer to target in the second half of next year. S&P Global Economics also believes this will persuade the U.S. Federal Reserve to make more aggressive interest rate cuts than anticipated, likely landing at 4.4% and 2.6% by year-end 2024 and 2025, respectively. While the U.S. economy is expected to expand by 2.3% this year, growth is expected to slow to 1.3% in 2024 and 1.4% in 2025. S&P Global Economics also expects that the unemployment rate will rise to 4.8% in 2025, higher than the longer-run steady state of 4.0% to 4.5% (see "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on RatingsDirect). S&P Global Market Intelligence forecasts that Oregon's real gross state product (GSP) growth will remain above that of the U.S. overall through 2026, reaching 3.4% in 2023, then slowing to 1.6% in 2024 and 1.4% in 2025.

While Oregon has historically experienced more population growth than that of the nation, it recognized a 0.38% population decrease in 2022, compared with the nation's growth of 0.38%. The state projects that population growth will return, albeit at a lower rate than over the last decade. While the state's affordability is a challenge, the legislature and governor have made it a priority through various policy initiatives, and positive in-migration trends among 18-to-24-year-olds is a positive indication, given this cohort's contributions to economic activity. The state is also forming an alternative long-term outlook that reflects slower population gains, which we think is proactive as it is unclear if this is a unique diversion from historical trends, or a change that could be more lasting.

We anticipate the state's debt burden will remain moderate-to-moderately high in the near term given that the 2023-2025 biennium budget authorized an additional $2 billion in general-fund supported GO bonds and an additional $501 million in lottery revenue bonds. The debt authorizations are targeted for specific capital needs throughout the state. Although we currently view the state's debt burden as sustainable, we will continue to monitor how the state manages its debt profile over the biennium, and if any rising capital needs add pressure to its debt and liability profile.

The 'AA+' rating reflects our view of Oregon's:

- Demonstrated willingness to make revenue and expenditure adjustments to correct structural imbalances, coupled with constitutional and statutory mechanisms to build RDFs and currently strong reserve levels;
- Strong financial policies and budget management practices, including institutionalized quarterly reviews of financial performance and economic forecasts, which serve as important budget planning tools;
- Propensity for revenue volatility, given general fund dependence on PIT revenues, which have historically fluctuated during economic downturns and weaker financial market performance;
- Active citizen initiative process, which can restrict budgetary flexibility, in particular, the state's constitutional kicker provision, which has roots in the state's voter initiative process; and
- Moderate-to-moderately high debt burden, with rapid amortization of tax-supported debt, moderate unfunded pension liabilities, and minimal unfunded retiree health care liabilities.

Based on the analytic factors we evaluate for states, we assigned a composite score for Oregon of '1.6' on a four-point scale, whereby '1.0' is the strongest and '4.0' is the weakest.

For more information, please refer to our full analysis on the state's GO debt, published Feb. 27, 2023.

Environmental, social, and governance

Social and governance factors have no material influence on our credit rating analysis for Oregon. Although the state has some exposure to physical risks, including wildfires in the state's expansive forests and flooding along its estuaries, we believe these risks are mitigated by the state's wildfire recovery and prevention efforts, including implementation of forest land management programs and pursuit of wildfire recovery funds and Federal Emergency Management Agency

(FEMA) reimbursements, and providing funding for projects related to water infrastructure, fire, and public safety infrastructure, among others.

Outlook

The stable outlook reflects our expectation that Oregon's strong financial forecasting and budgetary management will help guide executive and legislative actions to make timely adjustments that realign expenditures and revenues over the outlook period. The outlook also reflects our view that, beyond potential pressures stemming from slower economic growth in the near term, Oregon will continue to exhibit favorable economic growth that parallels that of the U.S. overall, further supporting our view of the state's long-term credit stability.

Downside scenario

We could lower the rating if personal and corporate income tax collections fall substantially below the state's forecast expectations, causing the state's budget to fall out of structural alignment and necessitating depletion of budget reserves without plans to restore structural balance and rebuild reserve balances. Downside risk could also stem from slowing economic conditions that weaken Oregon's economic metrics to a point that we feel they are no longer commensurate with those of similarly rated peers.

Upside scenario

While unlikely in the near term, we could raise the rating if the state experiences lower cyclical revenue volatility or further diversification in its revenues due to its currently higher dependence on income taxes and exposure to capital gains tax fluctuations, coupled with sustained improvement in gross state product and income trends. A gradual strengthening of the state's pension funding discipline, as evidenced by total plan contributions matching or exceeding actuarially determined levels, as well as estimated annual amortization components, could also lead to upward rating potential.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 20, 2023)		
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 20, 2023) (cont.)		
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon APPROP (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of October 20, 2023) (cont.)		
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO bnds (taxable, article XI-F(1))		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO bnds (taxable, article XI-G) ser 2023 I due 08/01/2037		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO bnds (tax-exempt, article XI-F(1))		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO bnds (tax-exempt, article XI-G)		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO bnds (Fixed Rate) (Vets Welfare Bonds Series 111) ser 2023E due 12/01/2053		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon Department of Energy, Oregon		
Oregon		
Oregon Dept of Energy (Oregon) GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of October 20, 2023) (cont.)		
Oregon State Board of Higher Education, Oregon		
Oregon		
Oregon St Brd of Hgr Ed (Oregon) GO		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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