



Rating Action: Moody's assigns Aa1 to the State of Oregon's GO bonds; outlook stable

23 Oct 2023

New York, October 23, 2023 -- Moody's Investors Service has assigned a Aa1 rating to the State of Oregon's approximately \$140.8 million State of Oregon General Obligation Bonds 2023 Series J (Article XI-Q State Projects) (Tax-Exempt) and \$18.1 million State of Oregon General Obligation Bonds 2023 Series K (Article XI-Q State Projects) (Federally Taxable). The bonds are expected to price the week of November 7. The outlook on these bonds is stable.

Moody's also affirms the Aa1 ratings on Oregon's issuer rating and \$7.5 billion of outstanding general obligation bonds the Aa1 rating on the Oregon School Bond Guaranty Program, the Aa2 rating on the Certificates of Participation (COPs), the Aa2 rating on the Oregon Pension Obligation State Intercept Act, the VMIG 1 rating on outstanding general obligation variable rate bonds, the Aa2 rating on the state's Lottery Revenue Bonds, the Aa1 rating on the senior lien Highway User Tax Revenue Bonds and the Aa2 rating on the subordinate lien Highway User Tax Revenue Bonds. The outlook on the long term ratings is stable.

Please click on this link http://www.moody's.com/viewresearchdoc.aspx?docid=PBM_PBM908300684 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The Aa1 rating on the general obligation bonds and the Oregon School Bond Guaranty Program (OSBGP) are the same as the state's Aa1 issuer rating, which is based on the state's strong liquidity and fund balances combined with sophisticated revenue forecasting and sound budget management, which supports continued budget flexibility. While the state's bonded debt medians are above average, total leverage is moderate given its below-average adjusted net pension liability and virtually non-existent other post-employment benefits (OPEB) liability. The state's strengths are balanced by its high exposure to personal income tax volatility and the constitutional 2% kicker on income taxes that prevents Oregon from fully capturing the revenue boost during periods of economic strength.

The Aa2 rating on the COPs is one notch below the state's Aa1 Issuer Rating, reflecting a moderate legal structure that includes the need for biennial legislative appropriation of lease payments and the more essential nature of the various projects financed. There are limited to no bondholder remedies in the event of non-appropriation; however, the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

The Aa2 programmatic rating on the Oregon Pension Obligation State Intercept Act is notched off of the State of Oregon's issuer rating and based on the programs' strong position in the state's hierarchy of debt and spending priorities, and strong program mechanics, including the timely payment of aid to the debt service trustee.

The Aa1 rating on the senior lien Highway User Tax Revenue Bonds and the Aa2 rating on the subordinate lien Highway User Tax Revenue Bonds reflect the strong economic base and the breadth of constitutionally-dedicated pledged revenues, as well as solid debt service coverage, a strong additional bonds test, and a history of sound transportation program management. Balancing these strengths are large transportation funding needs that create an ongoing need for new borrowing, and the risk of rising ODOT operating expenses and/or revenue sharing with local governments, which are paid prior to debt service.

The Aa2 rating on the Lottery Revenue Bonds incorporates the economic strength of the state, robust legal protections, ample debt service coverage, and very strong management of the lottery system. These strengths are

somewhat offset by the weak, discretionary nature of lottery revenues that leads to significant volatility, as seen during the coronavirus pandemic. Legal protections are above average for the peer group, including a constitutional requirement that lottery revenues pay debt service first, a four times additional bonds test, and a well-funded debt service reserve fund that is backed by the state's statutory moral obligation commitment to replenish it.

The highest short-term rating of VMIG 1 on the general obligation variable rate bonds is derived from (i) the credit quality of JP Morgan Chase Bank, N.A. or U.S. Bank National Association as providers of liquidity support for the Bonds in the form of a Standby Bond Purchase Agreement (SBPA), (ii) the long-term rating of the Bonds and (iii) Moody's assessment of the likelihood of an early termination or suspension of the SBPA without a mandatory tender. Events that would cause termination or suspension of the liquidity facility without a mandatory purchase of the Bonds are directly related to the credit quality of the State. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating, Aa1, assigned to the Bonds. Moody's current short-term Counterparty Risk (CR) Assessment of both banks mentioned above is P-1(cr).

RATING OUTLOOK

Oregon's stable outlook reflects sound budget management and strong liquidity that will support satisfactory financial flexibility over the near term.

The outlook on the general obligation bonds, COPs, Oregon School Bond Guaranty Program and Oregon Pension Obligation State Intercept Act is the same as the state's issuer rating outlook.

The stable outlook on both the senior and subordinate lien Highway User Tax Revenue bonds reflects the expectation that steady pledged revenue growth will continue, supporting solid debt service coverage. The stable outlook also reflects the expectation that future bond authorizations will include new revenues and sustain stable coverage.

The stable outlook on the Lottery Revenue Bonds reflects our expectation that coverage will remain strong and demand for Oregon lottery games will be stable over the next 12-18 months. The lottery's stability is further supported by its proactive management and the state's inherent interest in the continued profitability of the operation.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

Issuer and GO Ratings:

- Maintenance of structural budget balance, including making sufficient pension contributions to help the pension liability "tread water"
- Growth and maintenance of strong reserve levels that are above-average and sufficient to offset revenue volatility during economic downturns
- Greater financial management flexibility through the loosening of fiscal governance constraints, such as the constitutional requirement to return revenue in excess of budget to taxpayers and a requirement for a supermajority approval vote to enact any tax increases
- Sustained trend of strong economic growth and diversification. For example, a rapid return to above-average job growth that exceeds national trends

Oregon School Bond Guaranty Program, COPs, Oregon Pension Obligation State Intercept Act:

- An upgrade of the state

Highway User Tax Revenue Bonds:

- Stronger legal provisions, such as a higher additional bonds test and stronger legal and cash flow segregation of pledged revenues, along with an upgrade of the state

- Sustained increase in maximum annual debt service coverage

Lottery Revenue Bonds:

- An established trend of significantly higher debt service coverage, along with an upgrade of the state's issuer rating
- Demonstrated reduction in risk of future revenue volatility and reduction in potential revenue erosion from competition or shifting consumer interest

Short term rating:

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Issuer and GO ratings:

- Deterioration in the state's financial performance and reductions in reserve levels that exceed peer trends
- A sustained, multiyear use of non-recurring solutions to balance the budget
- A significant increase in leverage metrics

Oregon School Bond Guaranty Program, COPs, Oregon Pension Obligation State Intercept Act:

- A downgrade of the state

Highway User Tax Revenue Bonds:

- Weakened legal covenants
- Sustained decline in pledged revenues due to economic slow-down or legislative changes that increase distributions to local governments
- Increased leveraging to fund capital commitments without commensurate revenue growth or new revenue source

Lottery Revenue Bonds:

- Sustained decrease in debt service coverage at or near the pandemic-induced low point
- Weakened constitutional protections against in-state competition
- Significant shift in consumer interest leading to reduced lottery revenues
- Deterioration in management that disrupts operations and/or erodes profitability

Short term rating:

- Downgrade of the short-term CR Assessment of the bank(s)
- Multi-notch downgrade of the long-term rating of the bonds

LEGAL SECURITY

The 2023 Series J and K bonds are general obligations of the State of Oregon, backed by the full faith and credit and

taxing power of the state. The Oregon constitution authorizes the issuance of general obligation bonds for a variety of purposes under articles XI-A through XI-Q. The state's ad valorem taxing power is not pledged to repay the 2023 Series J and K bonds.

Oregon School Bond Guaranty Program: The state's full faith, credit and unlimited taxing power is pledged to guarantee qualified school districts' bond debt service when due. Moody's assigns the OSBGP rating to school district bonds that are guaranteed under the state program and assigns underlying ratings to individual bond issues at the request of the issuing district.

COPs: The COPs are special limited obligations of the state, to be repaid pursuant to a loan agreement between the state, acting through the department of administrative services (DAS), and the certificate trustee. Payments are subject to biennial legislative appropriation, but are otherwise absolute and unconditional. No assets secure the certificates, and in the event of non-appropriation, the trustee has very limited recourse.

The Oregon Pension Obligation State Intercept Act provides credit enhancement to participating schools through the diversion of state aid revenues to a trustee to ensure timely debt service payments, and thereby prevent debt service obligations from competing with other local expenditure priorities. Oregon's program is a direct pay intercept, therefore annual debt service will automatically be funded largely by monthly installments paid by the state's Department of Education in amounts proportional to state aid payments made to school districts.

Highway User Tax Revenue Bonds: The bonds are secured by constitutionally dedicated fuel tax revenues, motor carrier revenues and DMV revenues, net of certain ODOT administrative expenses and revenue sharing with counties and local governments. The state has covenanted with bondholders to assess and collect pledged revenue in amounts sufficient to meet debt service requirements on these bonds.

Lottery Revenue Bonds: The bonds are secured by a first lien on the unobligated net proceeds of the state lottery which are defined as all revenues from the operation of the state lottery except for revenues used for prizes and lottery expenses. The state has a constitutional provision giving debt service a strong first claim on net revenues and stipulating that no net proceeds will be appropriated by the Legislative Assembly unless an amount sufficient to pay the lottery bonds has been appropriated.

Short-term Variable Rate Bonds Enhanced Rating: The bonds are supported by SBPAs cover the full principal amount of the applicable series of Bonds outstanding plus 34 days of interest at 12%, the maximum rate applicable to the Bonds. The SBPAs are available to pay the purchase price to the extent remarketing proceeds received are insufficient and provides sufficient coverage for the Bonds while in the daily, weekly and monthly rate modes.

USE OF PROCEEDS

The 2023 Series J and K bond proceeds will finance statewide capital improvement projects for public safety and emergency preparedness including seismic retrofit and improvements to facilities for various state agencies and higher education buildings.

PROFILE

The State of Oregon has a population of 4.3 million people and is located on the northwest coast of the US, bordered by Washington (Aaa stable), California (Aa2 negative), and Idaho (Aaa stable) with 1,410 miles of shoreline, according to NOAA. The state is the 27th largest by population and has a large, diverse economy reflected in its 2022 GDP of \$297 billion (ranks 25th among states).

METHODOLOGY

The principal methodology used in the issuer, general obligation, COP, and Oregon School Bond Guaranty Program ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/rmc-documents/356901>. The principal methodology used in the highway user tax revenue

bonds and lottery revenue bonds was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/rmc-documents/70024>. The principal methodology used in the short-term ratings was US Municipal Short-term Debt Methodology published in May 2023 and available at <https://ratings.moodys.com/rmc-documents/398329>. The principal methodology used in the Oregon Pension Obligation State Intercept Act rating was State Aid Intercept Programs and Financings Methodology published in March 2022 and available at <https://ratings.moodys.com/rmc-documents/356903>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908300684 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
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- Endorsement

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