FitchRatings

FITCH RATES OREGON DOT'S $379MM HIGHWAY SENIOR LIEN RFDG REVS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-08 January 2015: Fitch Ratings assigns an 'AA+' rating to the following State of Oregon Department of Transportation (ODOT) highway user tax revenue bonds:

--$378.96 million senior lien refunding bonds series 2015A (tax-exempt).

The bonds are expected to be sold through negotiation on or about January 14 and 15, 2015.

In addition, Fitch affirms the following ratings:

--Approximately $1.53 billion in outstanding ODOT senior lien highway user tax revenue bonds at 'AA+';

--Approximately $560.7 million of outstanding ODOT subordinate lien highway user tax revenue bonds, series 2010A and 2010B at 'AA'.

The Rating Outlook is Stable.

SECURITY

Senior lien bonds are secured with a parity first lien on specific highway use taxes and fees deposited in the state highway fund, net of administration and collection costs and statutorily determined city and county apportionments to fund local transportation projects. Subordinate lien bonds are secured by the pledged revenues on a subordinate basis to the senior lien bonds.

KEY RATING DRIVERS

PLEDGED REVENUES ARE CONSTITUTIONALLY DEDICATED: Highway user taxes, including the gas tax, are constitutionally dedicated for highway purposes, although pledged revenues and apportionments thereof are subject to legislative changes and voter initiatives. The state has a solid track record of raising transportation-related fees and taxes in support of its capital program.

SOUND DEBT SERVICE COVERAGE: Coverage levels remain sound although they are expected to decline over time with future debt issuance and approach the additional bonds test (ABT). Issuance of additional senior and subordinate bonds requires 3x and 2x coverage of maximum annual debt service (MADS), respectively.

STABLE REVENUE STREAM WITH SLOW GROWTH ANTICIPATED: The bonds are secured by taxes and fees levied on the use and ownership of motor vehicles and motor carriers as well as gasoline and fuel taxes. Pledged revenues have shown stability over time, although Fitch believes the revenue stream has limited growth potential.

RATING SENSITIVITIES

The rating is sensitive to the performance of pledged revenues as well as their allocation to debt service requirements for these bonds.

CREDIT PROFILE

The 'AA+' rating on the senior lien bonds reflects the constitutionally dedicated revenues for highway purposes, a strong 3x ABT, as well as the department's integration into the state's capital and financial planning process. The 'AA' rating on the subordinate lien debt reflects the junior pledge to the senior bonds and lower, but satisfactory 2x ABT. The current issue is a refinancing for debt service savings with no extension of maturities. ODOT anticipates issuing its second and final offering under the state's 2009 Jobs and Transportation Act (JTA), in which $840 million in bonding for transportation related projects was approved, in mid to late 2016. All other new money authorizations have been issued.

CONSTITUTIONALLY DEDICATED REVENUES

Providing security for these bonds are various liens on specific highway use taxes and fees deposited in the state highway fund, net of administration and collection costs and statutorily determined city/county apportionments to fund local transportation projects. Gross highway fund revenues in fiscal 2014 were $1.1 billion, of which 44% was derived from fuel tax revenues, 29% motor carrier (including weight-mile) taxes and 28% from motor vehicles license, registration and other fees (DMV revenues). Fiscal 2014 gross highway fund revenues increased by 2.8% from fiscal 2013, incorporating 5.1% growth in motor carrier revenue, 2.6% growth in DMV revenues, and 1.5% growth in motor fuel revenues, reflecting the strong growth in the state's economy.

Statutory reductions for administrative costs and program set-asides plus revenue sharing with county and city governments, less add back of certain set-asides, totaled $560.9 million in fiscal 2014, leaving $579.7 million as pledged revenues in support of these bonds, inclusive of a $10 million Build America Bond (BABs) subsidy payment. Of the total reductions, $109.6 million was statutorily set aside and added back to pledged revenues under various state transportation initiatives including multiple Oregon Transportation Investment Acts (OTIA) enacted in 2001, 2002, and 2003, as well as the JTA.

After all statutory reductions, set-asides and adjustments, $569.7 million of fiscal 2014 pledged revenues (excluding the BABs subsidy) represented 50% of total highway fund revenues, an increase of 2.4% from fiscal 2013 and a slight improvement from an earlier ODOT forecast due to a more robust state economic growth. Forecast annual growth in pledged revenues from fiscal 2015 to fiscal 2017 is expected to average 1.7%, incorporating ODOT's expectation of slow but steady economic growth in the state; an expectation that Fitch believes is reasonable based on current trends.

DEBT SERVICE COVERAGE REMAINS SOUND

To support the state's transportation-related capital improvements, certain fees and revenues were increased in recent years, with the first full-year revenue impact recorded in fiscal 2012, bolstering coverage of ODOT's debt obligations, including those for $265 million (or 11% of total outstanding par) in variable-rate debt. Fiscal 2014 pledged revenues, without consideration of the BABs subsidy, covered senior lien annual debt service requirements by 4.7x and aggregate debt service by 3.6x. Both ratios are down from those in fiscal 2013; 5.1x for seniors and 3.8x for aggregate debt service at that time; but the declines were anticipated and Fitch believes coverage remains satisfactory.

Projected revenues in fiscal 2015 without consideration of the BABs subsidy are forecast to cover senior obligations by 4.3x and aggregate obligations by 3.3x. Estimated MADS coverage by projected fiscal 2015 revenue, excluding the BABs subsidy and no assumption of additional debt issuance, would be 4.1x for senior lien bonds and 3x for all debt service in aggregate. Fitch expects debt service coverage to decline with future debt offerings but remain above the ABT.

Contact:

Primary Analyst
Marcy Block
Senior Director
+1-212-908-0239
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Karen Krop
Senior Director
+1-212-908-0661

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria'(Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033