STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

Oregon Department of Transportation; Gas Tax

Primary Credit Analyst:
Gabriel J Petek, CFA, San Francisco (1) 415-371-5042; gabriel.petek@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

Summary:

Oregon Department of Transportation; Gas Tax

Credit Profile		
US$378.96 mil sr lien highway user tax rev bnds ser 2015A dtd 01/27/2015 due 11/15/2033		
Long Term Rating	AAA/Stable	New
Oregon Dept of Transp Hwy user tax		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to the Oregon Department of Transportation's (ODOT) $378.96 million in senior-lien revenue refunding bonds, series 2015 (tax-exempt). In addition, we affirmed our 'AAA' long-term rating on ODOT's existing $1.5 billion of senior-lien debt. We also affirmed our 'AA+' long-term rating on ODOT's $560.7 million of subordinate-lien debt (series 2010A and 2010B). The outlook on all ratings is stable.

ODOT also has another $265.5 million in subordinate-lien debt (not rated). In November 2013, ODOT's series 2011A subordinate-lien notes were prepaid by proceeds from the sale to Bank of America of its $265.5 million in subordinate-lien series 2013B SIFMA index bonds. The 2013 SIFMA index bonds are ODOT's only variable-rate debt. In our view, the SIFMA index bonds do not present a liquidity risk.

The ratings reflect our opinion of ODOT's:

- Statewide collection of a diverse group of fees and taxes associated with the state's transportation system;
- Very strong, projected 4.1x coverage of senior-lien maximum annual debt service (MADS) and 3.2x coverage of combined senior- and subordinate-lien MADS (scheduled for 2029) by actual fiscal 2014 pledged revenues;
- Strong cash position, which provides a cushion against unexpected liquidity needs; and
- Strong legal provisions, including an additional bonds test of at least 3x MADS on senior-lien bonds and 2x combined senior- and subordinate-lien MADS in order to issue subordinate bonds.

The senior and subordinate liens are secured respectively by the state's first or second lien on ODOT's pledged revenue. Pledged revenue consists of the following, net of deductions and statutory transfers:

- Motor carrier revenue (weight-mile taxes and road use assessment fees),
- Fuel tax revenue (motor vehicle fuel and fuel use taxes), and
- Vehicle titling and registration fees and driver license fees.

All pledged revenue paid into the state highway fund, net of statutory revenue sharing and other deductions, is held by the state treasurer, and ODOT is required to use any available state highway fund reserves derived from pledged revenue to make up any deficiency.

According to the ODOT, proceeds from the bonds will be used to refinance portions of its series 2007A and 2009A senior-lien bonds.

Pledged revenues, which represented 51% of gross highway fund revenue in fiscal 2014, are in the midst of a slow growth mode. From fiscal 2012 through 2014, pledged revenues increased 1.6% annually on average. ODOT's most recent forecast, from June 2014, projects that pledged revenues will increase at a similar, 1.6% annual rate through fiscal 2019. Pledged revenue (based on actual fiscal 2014 results and including the currently scheduled issuance of the 2015 bonds) covers projected MADS, scheduled to occur in 2029, by 4.1x for the senior lien. Coverage of annual debt service in fiscal 2014 was stronger at 4.8x. Estimates for fiscal 2015 also indicate very strong, 4.3x coverage. Coverage remains strong when ODOT's subordinate lien debt is included with MADS coverage of 3.2x and fiscal 2014 coverage of 3.8x.

The Oregon Transportation Improvement Act III (OTIA), which passed in 2003, has provided $2.46 billion in transportation infrastructure bond financing throughout the state. Most of the OTIA projects repaired or replaced bridges throughout the state, projects that are now 95% complete. In 2009, the legislature passed the Jobs and Transportation Act (JTA), which authorized ODOT to issue another $840 million in debt secured by pledged revenues for transportation infrastructure enhancements throughout the state. The state issued $409.775 million of highway user tax revenue bonds in 2013 to fund $450 million in projects under the JTA.

When it enacted the JTA, the state legislature approved several fee and tax increases that were to phase-in across approximately two years. By 2011 the various increases were in place, and they have helped increase gross highway fund revenues by almost $270 million. Revenue from the fee and tax increases is for the purpose of funding the JTA-related projects, which can include being pledged toward bond repayment. ODOT amended the master declaration to reflect this.

ODOT anticipates issuing the remaining $390 million in bonding capacity authorized under JTA, which it anticipates will be evenly split between senior-lien fixed rate and subordinate-lien variable-rate bonds, in fiscal 2016. ODOT's debt structure is relatively conservative with just 11% in variable-rate modes. The variable-rate share could increase somewhat, however, following the fiscal 2016 issue.

Including the new debt service associated with senior- and subordinate-lien debt that we understand ODOT intends to issue under the JTA, management forecasts that senior annual debt service coverage, not including debt service associated with bonds expected to be issued in fiscal 2016, will remain at levels we consider to be very strong, ranging from 4.4x to 5.0x during fiscal 2016 through 2018 (including projected pledged revenue growth). When the planned fiscal 2016 debt issuance is included, the projected debt service coverage ratios of the senior-lien bonds only are still strong in our view (ranging from 4.2x to 4.4x). When the expected senior- and subordinate-lien debt issued in 2015 is included, coverage would be somewhat lower, but still strong in our view, around 3.2x.

Legal provisions are strong in our view, with a minimum MADS coverage threshold of 2x combined senior and subordinate debt service net of American Recovery and Reinvestment Act subsidy payments when issuing additional subordinate debt and a 3x MADS additional bonds test for the senior level. The coverage test relies on historic revenues, which we view as stronger than a reliance on projected revenues. Pledged revenues are deposited into the debt service reserve account monthly.

Existing statute and its master declaration, under which the ODOT's bonds are issued, require the state to maintain taxes and fees sufficient to pay the debt service on the bonds. Pledged revenues are net of various deductions from gross highway fund revenues, including administrative expenses, operating transfers, and certain revenue-sharing transfers and program set-asides. And while the state legislature has authority to change tax and fee schedules, as well as the allocation of revenue collections, pledged revenues have typically remained no less than approximately 50% of gross revenues.

The department takes a comprehensive approach to cash management and targets keeping at least $100 million in its state highway fund, which it invests through the State Treasurer's Oregon Short-Term Fund and Fixed Income Portfolio.

ODOT's economic model, which serves as the basis for its revenue forecasts, projected slower growth in its most recent, June 2014 forecast than has materialized. At that time, the forecast anticipated that total payroll employment in Oregon wouldn't reach its pre-recession peak until mid-2015. Thanks to a 3% year-over-year increase in jobs as of November 2014, the state has now surpassed its prior employment peak. Nevertheless, the unemployment rate has stayed higher in Oregon than in the nation. From April through June, the jobless rate had fallen to 6.8%. It then ticked up to 7.1% in September and declined again to 7.0% as of November. Still, that puts Oregon's jobless rate more than a full percentage point higher than the nation's, which was at 5.8% in November. For all of 2013, unemployment in Oregon averaged 7.4%, down from 8.1% in 2012 and 8.9% in 2011. (The state's unemployment rate peaked at 11.6% in May and June of 2009).

During 2012, Oregon saw growth in nonfarm payroll jobs of just 0.98%, well below the national rate of 1.66%. But then, in 2013, the state's job growth ramped up to 2.80%, well above the national rate of 1.73%. Throughout this period, the state's unemployment rate came down significantly, from 8.3% at the start of 2013 to 7.1% by the end of the year. During the past 12-month period (November to November), Oregon's total nonfarm payrolls have grown 3.0%, well ahead of the national 1.99% rate of growth.

Oregon's economy relies to a greater extent on manufacturing employment than does the nation (10.4% of employment versus 8.8% nationally). This translates to a more export-oriented economy than for many states, in particular to China, when coupled with the state's lumber industry. Weaker trends in the Chinese economy and a strong U.S. dollar present some vulnerability to the state's pace of economic expansion going forward.

Leading the way during this 12-month period were the various service sectors. Education and health services employment increased 4.3%, and other services grew 6.3%. Manufacturing was up 3.5%. Oregon's governmental sector (all levels) is no longer contracting and increased 2.6%.

Outlook

The stable outlook reflects our view that the pledged revenues will continue to provide strong coverage of both senior-lien and combined senior- and subordinate-lien bonds. The pledged revenue is susceptible to some amount of fluctuation based on economic conditions as demonstrated by the decline in 2009, but we anticipate that the incremental growth of pledged revenue observed since then will likely continue as the national and state economies continue to expand, even if at gradual rates. Oregon's recent economic performance, which has been growing at a faster clip than the nation, only helps further strengthen our view of credit quality on the bonds. Nevertheless, a precipitous decline in the pledged revenue, coupled with the additional planned bonded debt, could exert pressure on the rating in the future, but we do not currently expect this. A key stabilizing credit factor, in our view, is the presence of minimum MADS coverage thresholds that we consider strong and that limit the coverage dilution that could follow future debt issuances.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014

Ratings Detail (As Of January 9, 2015)		
Oregon Dept of Transp hwy user tax rev bnds (Taxable BABs) (Subord Lien Bnds) ser 2010A		
Long Term Rating	AA+/Stable	Affirmed
Oregon Dept of Transp sr ln rfdg bnds (Tax-Exempt)		
Long Term Rating	AAA/Stable	Affirmed
Oregon Dept of Transp Highway User Tax Rev Subord Lien Note (Tax-Exempt) ser 2011A due 11/15/2027		
Long Term Rating	AA+/Stable	Affirmed

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.