

25 OCT 2023

# Fitch Rates Oregon's \$159 Million GOs 'AA+'; Outlook Stable

Fitch Ratings - San Francisco - 25 Oct 2023: Fitch Ratings has assigned 'AA+' ratings to the following state of Oregon general obligation (GO) bonds:

--\$140.790 million GO bonds 2023 Series J (Article XI-Q State Projects) (Tax-Exempt);

--\$18.065 million GO bonds 2023 Series K (Article XI-Q State Projects) (Federally Taxable).

The bonds are expected to sell via negotiated sale Nov. 7, 2023.

In addition, Fitch has affirmed Oregon's Issuer Default Rating (IDR) at 'AA+', outstanding GO bonds at 'AA+', the Oregon School Bond Guaranty Program at 'AA+', and state appropriation-based bonds at 'AA'.

The Rating Outlook is Stable.

Oregon's 'AA+' IDR and GO bond rating reflect the state's strong control over revenues and spending, low liabilities, and record of prompt actions to maintain financial flexibility during challenging revenue periods. The state's operating performance is sustained by a diverse economy with strong long-term growth prospects. Strong financial management is critical to the rating given a revenue structure largely dependent on the personal income tax (increasingly skewed toward middle- and upper-income earners), exposure to voter initiatives that can have negative fiscal impacts, and constitutional 'kicker' provisions that limit revenue growth captured by the state.

## SECURITY

The GO bonds are direct general obligations of the state of Oregon, with the full faith and credit of the state pledged to bond repayment.

The state guaranty under the Oregon School Bond Guaranty Program is a full faith and credit obligation of the state, on par with its GO bonds.

The state-appropriation-backed bonds are payable from moneys appropriated by the state to debt repayment. The one-notch distinction reflects greater repayment optionality.

## KEY RATING DRIVERS

### Revenue Framework - 'aaa'

Fitch expects Oregon's revenues, which are heavily dependent on personal income tax revenues given the lack of a sales tax, to continue to reflect the strength of its economy and exhibit growth consistent with long-term expectations for national GDP growth. The state has an unlimited legal ability to raise operating revenues as needed.

## **Expenditure Framework - 'aaa'**

The state maintains ample expenditure flexibility with a low burden of carrying costs for long-term liabilities and the broad expense-cutting ability common to most U.S. states. As with most states, Medicaid remains a key expense driver, but one that Fitch expects to remain manageable.

## **Long-Term Liability Burden - 'aaa'**

Combined debt and pension liabilities represent a low burden on resources, even when taking planned future debt issuances into account. Other post-employment benefit obligations are modest.

## **Operating Performance - 'aa'**

The state's strong management of its financial operations leaves it well-positioned to deal with economic downturns, but resilience remains constrained by voter-approved fiscal restraints and revenue volatility. The state has very strong gap-closing capacity in the form of its control over revenues and spending. State balancing measures in downturns include reserve draws and there is a consistent history of rebuilding reserves as the economy strengthens. An active voter initiative environment periodically affects state finances.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Failure to implement available policy measures that offset risks associated with future economic contractions, resulting in erosion of the state's gap-closing capacity.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Increased gap-closing capacity, including maintenance of combined rainy day fund and education stabilization fund reserves near-to-over 20% of average annual revenues (10% of biennial revenues).

--Structural changes to the state's voter initiative process that reduce constraints on the state's operating flexibility.

## **PROFILE**

The state has made steady economic gains in recent years due to its more diversified economy and growing population, with technology and manufacturing sectors showing particular strength. However, it remains vulnerable to economic volatility and disruptions to international trade during recessionary periods.

## **Sources of Information**

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## Fitch Ratings Analysts

### Bryan Quevedo

Director

Primary Rating Analyst

+1 415 732 7576

Fitch Ratings, Inc. One Post Street Suite 900 San Francisco, CA 94104

### Karen Krop

Senior Director

Secondary Rating Analyst

+1 212 908 0661

### Douglas Offerman

Senior Director

Committee Chairperson

+1 212 908 0889

## Media Contacts





### Sandro Scenga





New York

+1 212 908 0278








sandro.scenga@thefitchgroup.com

## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Oregon, State of (OR) [General Government]	LT IDR	AA+ 	Affirmed	AA+ 
<ul style="list-style-type: none"> <li>Oregon School Bond Guaranty Program (OR)</li> </ul>	LT	AA+ 	Affirmed	AA+ 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
/State School Bond Program Rating/1 LT				
• Oregon, State of (OR) /General Obligation - Unlimited Tax/1 LT	LT	AA+ 	Affirmed	AA+ 
• Oregon, State of (OR) /Lease Obligations - Dept of Adm Svcs/1 LT	LT	AA 	Affirmed	AA 

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Oregon, State of (OR) EU Endorsed, UK Endorsed

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