MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the State of Oregon's Aa1 General Obligation rating and various GO-notched ratings; outlook stable

30 Jan 2019

NOTE: On January 31, 2019, the press release was corrected as follows: In the second sentence of the first paragraph, the last referenced issuer rating was changed to “Oregon Pension Obligation State Intercept Act.” Revised release follows.

New York, January 30, 2019 -- Moody's Investors Service has affirmed the State of Oregon's Aa1 general obligation rating and various GO-notched ratings. The affirmed GO-notched ratings include: the Aa1 on the Oregon School Bond Guarantee Program issuer rating; the Aa2 rating on the state's certificates of participation; and the Aa2 on the Oregon Pension Obligation State Intercept Act issuer rating. Moody's has also affirmed the VMIG 1 short-term rating on Oregon's outstanding general obligation variable rate debt with liquidity support from a standby bond purchase agreement. The outlook on all the long-term ratings is stable.

RATINGS RATIONALE

The Aa1 ratings on the general obligation bonds and the Oregon School Bond Guarantee Program (OSBGP) are based on the state's strong economic growth that is supporting positive financial performance, balanced by the high exposure to personal income tax volatility and the constitutional 2% kicker on income taxes that prevents the state from fully capturing the revenue boost during periods of economic strength. Oregon's revenue risks are somewhat offset by the state's strong liquidity and satisfactory fund balances that have improved steadily since the recession, combined with sophisticated revenue forecasting and sound budget management. While the state's debt medians are above average, total long-term liabilities are moderate given its below-average adjusted net pension liability and minimal other post-employment benefits (OPEB).

The Aa2 rating on the certificates of participation is rated one notch off the state's GO rating, reflecting the moderate legal structure, the essential nature of the financed projects, and the need for annual legislative appropriation of revenues to pay debt service.

The Aa2 programmatic rating on the Oregon Pension Obligation State Intercept Program is notched off the state's GO rating, The rating is one notch off the state's GO 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 VMIG 1 short-term rating on the state's outstanding variable rate general obligation bonds is derived from: (i) the credit quality of U.S. Bank National Association (the Bank) as liquidity support provider under the Standby Bond Purchase Agreement (SBPA); and, (ii) Moody's assessment of the likelihood of an early termination of the SBPA without a mandatory tender. Events that could cause the SBPA to terminate without a mandatory tender of the bonds are directly related to the credit of the state. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating assigned to the bonds. Moody's currently rates U.S. Bank National Association long-term and short-term counterparty risk assessments (CR Assessment), Aa2(cr) / P-1(cr), respectively.

RATING OUTLOOK

Oregon's stable outlook reflects the sound governance that improves fiscal stability, and strong economic growth that will support planned increases in reserves. Oregon's unusually high dependence on personal income taxes poses downside forecast risk, particularly in light of recent stock market volatility, however continued growth in reserves and sustained revenue growth will mitigate that risk.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Maintenance of structural budget balance, including making sufficient pension contributions to help the pension liability "tread water"

- Growth and maintenance of strong General Fund reserve levels sufficient to offset revenue volatility during economic downturns and/or diversification of revenues

- Sustained healthy job growth

- Short-term: not applicable

- Notched ratings: An upgrade of the state

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Deterioration in the state's financial performance and reductions in reserve levels

- A return to using non-recurring solutions to balance the budget

- Slowing of economic recovery leading to employment erosion and revenue weakness

- A larger-than-expected increase in the adjusted net pension liability (ANPL) that leads to significantly above-average long-term liabilities

-Short-term: Moody's downgrades the short-term CR Assessment of the Bank providing the SBPA or downgrades the rating of the state

- Notched ratings: A downgrade of the state

LEGAL SECURITY

The GO bonds are general obligations of the state of Oregon, backed by the full faith and credit and taxing power of the state. Some series of general obligation bonds are also secured by the state's power to levy a limited ad valorem property tax. The Oregon constitution authorizes the issuance of general obligation bonds for a variety of purposes under articles XI-A through XI-Q.

Under the OSBGP, 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.

The certificates of participation are special limited obligations of the state and are payable solely from payments expected to be made by the state under a loan agreement between the state, acting through the department of administrative services (the department), and the certificate trustee. Such payments are subject to legislative appropriation in each fiscal period, but are otherwise absolute and unconditional.

The Oregon Pension Obligation State Intercept Program 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.

The variable rate bonds are secured by the general obligation, full faith and credit of the state. Liquidity support for unremarketed tenders is covered by a standby bond purchase agreement with U.S. Bank National Association.

PROFILE

The state of Oregon has a population of 4.1 million people located on the northwest coast of the US, bordered by Washington (Aa1 stable), California (Aa3 positive), and Idaho (Aa1 Issuer Rating) 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 GDP of $229 billion (ranks 25th among states).

METHODOLOGY

The principal methodology used in the general obligation ratings and the Oregon School Bond Guarantee Program was US States and Territories published in April 2018. The principal methodology used in the variable rate short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in

March 2017. The principal methodology used in the state aid intercept program issuer rating was State Aid Intercept Programs and Financings published in December 2017. The principal methodology used in the certificates of participation ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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