S&P Global Ratings

RatingsDirect®

State Of Oregon; Appropriations; General Obligation

Primary Credit Analyst:
Thomas J Zemetis, New York + 1 (212) 4381172; thomas.zemetis@spglobal.com

Secondary Contact:
Sussan S Corson, New York + 1 (212) 438 2014; sussan.corson@spglobal.com

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State Of Oregon; Appropriations; General Obligation

Credit Profile		
US$654.905 mil GO bnds (XI-Q, tax-exempt) ser 2023A due 05/01/2048		
Long Term Rating	AA+/Stable	New
US$176.06 mil GO bnds (XI-Q, taxable-sustainability, LIFT) ser 2023B due 05/01/2030		
Long Term Rating	AA+/Stable	New
US$155.555 mil GO bnds (XI-M, XI-N, XI-P, tax-exempt) ser 2023D due 06/01/2043		
Long Term Rating	AA+/Stable	New
US$8.555 mil GO bnds (XI-Q, taxable) ser 2023C due 05/01/2024		
Long Term Rating	AA+/Stable	New
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Oregon's approximately $654.9 million general obligation (GO) bonds, series 2023A (XI-Q for state projects, tax-exempt); approximately $176.1 million GO bonds, series 2023B (XI-Q for state projects, sustainability bonds); approximately $8.6 million GO bonds, series 2023C (XI-Q for state projects, federally taxable); and approximately $155.6 million GO bonds, series 2023D (XI-M, XI-N, XI-P for state grant programs, tax-exempt).
- We also affirmed our 'AA+' rating on Oregon's approximately $6.8 billion of GO bonds outstanding and our 'AA' rating on the state's appropriation-backed (certificates of participation [COPs]) debt outstanding. We rate Oregon's appropriation debt one notch lower than the state's general creditworthiness, reflecting the appropriation risk associated with the annual payment.
- At the same time, we affirmed our 'AA+/A-1+' rating on Oregon's various variable-rate demand GO bonds outstanding that receive liquidity support in the form of a standby purchase agreement (SBPA) with U.S. Bank N.A., and our 'AA+/A-1' rating on the series 2022E variable-rate demand GO bonds that receive liquidity support in the form of an SBPA with JPMorgan Chase Bank N.A. The long-term component of the rating on certain variable-rate bonds reflects our view of the state's credit characteristics while the short-term component of the rating reflects our view of the liquidity support in the form of an SBPA by their respective provider.
- The outlook on all long-term ratings is stable.

Security

The 2023 series bonds are direct general obligations of the state secured by its full faith and credit and taxing power, except for the ad valorem taxing power of the state.

Proceeds from the series 2023A and series 2023C bonds will be used to finance to various capital projects. In addition, proceeds from the series 2023B bonds will be used to finance housing-related projects, including the state's Permanent Supportive Housing Program and Local Innovation and Fast Track Housing Program. Finally, the series 2023D bonds will be issued to finance all or a portion of state share costs to plan and implement seismic rehabilitation of public education buildings, emergency service buildings, and to reimburse school districts with matching grants funds for finance capital costs.

Credit overview

In our view, Oregon's credit profile is supported by its diverse economy and steady population growth over the past decade, which have enabled the state to maintain a solid financial footing and build reserves to the highest level in the state's history. The state's credit fundamentals are also supported by proactive financial management, including quarterly economic and revenue forecasting, and the executive and legislative branches' demonstrated ability to make timely expenditure reductions to maintain structural budget balance. This is particularly important to Oregon's long-term credit quality given our view that the state derives a high proportion of its operating revenue from personal and corporate income tax, which we see as having potentially higher exposure to revenue volatility during economic and market downturns. While we expect Oregon's moderate-to-moderately high debt burden, increasing pension liabilities, and weak pension funding discipline, if unaddressed, could pressure future budget performance, but we believe its current share of fixed costs remain manageable within its budget in the near term.

Oregon's budgetary reserves are at historic highs, and officials project the 2021-2023 biennium will end with a rainy day fund (RDF) of $1.34 billion and education stability fund (ESF) balance of $708.4 million, bringing combined balances to $2.05 billion, or a $674.0 million (48.9%) increase from the fiscal 2019-2021 biennium. This equates to 7.7% of biennial general and lottery fund appropriations (16.3% on an estimated annualized basis), which we consider strong. In our opinion, Oregon's strong reserves could provide the state with additional flexibility to stabilize the budget should heightened recessionary risks pressure the state's cyclically volatile revenues during the 2023-2025 biennium.

Currently, S&P Global Ratings' economists are forecasting a mild recession for the first six months of 2023 (see "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022, on RatingsDirect), with the U.S. GDP growth forecast dampening to 1.8% for 2022 and negative 0.1% for 2023. Overall inflation readings have eased somewhat through early February 2023, although a stronger labor market could add upside pressure to wages, leading to higher prices. At the same time, the Federal Reserve's tightening monetary policy to stamp out inflation could drive borrowing costs higher and decelerate U.S. economic activity (see " U.S. Real-Time Data: Health Care Crisis Moderating While Consumer Confidence Improves, published Feb. 14, 2023).

On Feb. 22, 2023, Oregon's Office of Economic Analysis (OEA) revised its baseline economic forecast, which no longer calls for a recession, but for Oregon to experience a slow-growth, soft-landing scenario due to current underlying strength in the economy and indicators of slowing inflation. This might be optimistic compared with forecasts by S&P Global Economics. While it moved the probability of a mild recession out of its baseline forecast, OEA modeled an alternative (pessimistic) scenario where higher-for-longer interest rates to curb inflation could potentially push recessionary dynamics further out, heightening the risk of a recession at some point in the 2023-2025 biennium. Under this alternative scenario, the OEA estimates 60,000 job losses (or a 3.0% decline) with higher unemployment levels concentrated in goods-producing sectors (e.g., manufacturing, construction, and natural resources). While cyclical pressures stemming from a mild recession could soften near-term employment and gross state product (GSP) growth expectations for Oregon, we generally expect economic metrics will remain within a range consistent with our assessment of its overall strong economic profile over the outlook period.

The OEA's March 2023 revenue forecast projects significant increases to general fund and lottery fund revenues through the end of the fiscal 2021-2023 biennium due to sustained strong performance of personal and corporate income tax collections. The OEA projects gross general fund revenues will end the fiscal 2021-2023 biennium at $28.8 billion, which is $496.9 million (or 1.8%) higher than the previous forecast and nearly $5.5 billion (or 23.4%) higher than the close-of-session 2021 forecast. Total lottery earnings available to transfer are projected to end the biennium at $1.82 billion, which is $16.4 million (0.9%) higher than the previous forecast and $166.9 million (9.2%) higher than the close of session 2021 forecast. However, OEA forecasters note that growth in withholdings slowed in recent months, indicating some cooling of labor-market conditions. Non-wage sources of income continue to drive a substantial portion of income tax growth in the current biennium, but this trend might be unsustainable. The OEA forecasts that this could result in a hangover effect for personal income (negative 10.8%) and corporate income (negative 28.8%) taxes in the 2023-2025 biennium. The OEA projects gross general fund revenues to drop to $25.33 billion between 2023 and 2025, which is $3.55 billion (or 12.3%) lower than the current biennium.

The governor's combined general and lottery funds budget proposal for the fiscal 2023-2025 totals $32.1 billion, or a 9.7% increase over the 2021-2023 legislatively approved budget. Spending priorities aim to transition the state's budget as extraordinary federal spending in response to the COVID-19 pandemic declines. It includes a combination of recurring and nonrecurring funding for affordable housing production and reducing homelessness; maintaining or expanding mental health and addiction care programs; increasing education funding; and expanding early childcare programs. The executive proposal estimates combined general and lottery fund resources of $32.5 billion, including $3.86 billion in beginning balances and approximately $1.08 billion in anticipated reversions of unspent agency resources that will shift back the general fund for allocation in the 2023-2025 biennium. The proposal retains $2.05 billion of combined balances in the RDF and ESF funds projected at the end of the current biennium, but repurposes $765 million of projected biennium-end deposits and interest earnings to fund nonrecurring expenditures in the 2023-2025 biennium. Under state statute, however, a three-fifths vote of the legislature is required to repurpose deposits to the state's reserve accounts, and we expect there will likely be further negotiations and changes from the governor's proposal to the final budget.

As uncertainty still looms in the 2023 income tax filing period, we will closely monitor the OEA's May 2023 close-of-session revenue forecast for signs of revenue pressures that could make balancing the budget more challenging for Oregon in the 2023-2025 biennium and the sizing of the "kicker" calculation. We believe the state's constitutional kicker provision, which rebates growth in personal income taxes (PIT) back to taxpayers after exceeding 2% of the close-of-session budget forecast threshold, as a potential limitation on the state's ability to build reserve balances during good economic times and cushion its finances against potential moderate-to-severe economic downturns. OEA's March 2023 forecast projects a $3.9 billion PIT kicker for the 2021-2023 biennium--to be returned to taxpayers on calendar 2024 state income tax returns--while corporate kicker is projected at $1.5 billion and will be retained in the general fund for education purposes. We expect the anticipated kicker could weigh somewhat on Oregon's fiscal 2023-2025 biennium budget, but officials believe projected revenue gains position the state to absorb the kicker-related decline.

The 'AA+' rating reflects our view of Oregon's:

- Demonstrated willingness to make revenue and expenditure adjustments to correct structural imbalances, coupled with constitutional and statutory mechanisms to build rainy-day funds and currently strong reserve levels;
- Strong financial policies and budget management practices, including institutionalized quarterly reviews of financial performance and economic forecasts, which serve as important budget planning tools;
- Propensity for revenue volatility given general fund dependence on PIT revenues, which have historically fluctuated during economic downturns and weaker financial market performance; and
- Active citizen initiative process that can restrict budgetary flexibility, in particular, the state's constitutional "kicker" provision, which has roots in the state's voter initiative process; and
- A moderate-to-moderately high debt burden, with rapid amortization of tax-supported debt, moderate unfunded pension liabilities, and minimal unfunded retiree health care liabilities.

Environmental, social, and governance

ESG credit indicators: E-2, S-2, G-2

Social and governance factors have no material influence on our credit rating analysis for Oregon. We view environmental risks as neutral within our credit analysis for Oregon; although the state has some exposure to physical risks including wildfires in the state's expansive forests and flooding along its estuaries, we believe these risks are mitigated by the state's wildfire recovery and prevention efforts, including implementation of forest land management programs and pursuit of wildfire recovery funds and Federal Emergency Management Agency (FEMA) reimbursements, and providing funding for projects related to water infrastructure, fire, and public safety infrastructure, among others.

Outlook

The stable outlook reflects our expectation that Oregon's strong financial forecasting and budgetary management will help guide executive and legislative actions to make timely adjustments that realign expenditures and revenues over the outlook period, although the rating also incorporates our belief that an economic slowdown and reduction in enhanced federal support could result in volatility in income tax and cyclical declines in financial performance. The outlook also reflects our view that, beyond near-term recessionary pressures, Oregon will continue to exhibit favorable economic and population growth that parallels U.S., further supporting our view of the state's long-term credit stability.

Downside scenario

We could lower the rating if a drop in personal and corporate income tax collections fall substantially below the state's forecasted expectations, causing the state's budget to fall out of structural alignment and necessitating depletion of budget reserves without plans to restore structural balance and rebuild reserve balances. Downside risk could also stem from slowing economic conditions that weaken Oregon's economic metrics to a point that we feel is no longer commensurate with those of similarly rated peers.

Upside scenario

While unlikely in the near term, we could raise the rating if the state experiences lower cyclical revenue volatility or further diversify its revenues due to its currently higher dependence on income taxes and exposure to capital gains tax fluctuations, coupled with sustained improvement in GSP and income trends. A gradual strengthening of the state's pension funding discipline, as evidenced by total plan contributions matching or exceeding actuarially determined levels, as well as estimated annual amortization components, could also lead to upward rating potential.

Based on the analytic factors we evaluate for states, we assigned a composite score for Oregon of '1.6' on a four-point scale, whereby '1.0' is the strongest and '4.0' is the weakest.

Credit Opinion

Governmental Framework

The Oregon Constitution requires a balanced biennial budget, and in our view, the state maintains constitutional flexibility to raise revenues and reduce expenditures, subject to a three-fifths' majority vote of the legislature. In response to economic downturns and softening revenue, the executive branch also instituted its "allotment" authority to make across-the-board spending reductions outside the legislative session to restore budgetary balance.

To discourage budget surpluses as an offset to the balanced-budget requirement, in 2000, voters approved the constitutional kicker provision that requires Oregon to rebate PIT revenues that exceed original budget forecasts by 2%. In our view, the kicker provision limits the state's ability to assemble budget reserves during a period of expansionary economic and revenue growth and potentially avert cyclical fiscal strains on state income taxes, which have exhibited considerable volatility during past recessions. Under Measure 85 (2012), voters approved amending the state constitution to allocate corporate-income and excise-tax kicker refunds to the general fund for public education. Although the constitution requires the provision of resources for kindergarten through twelfth grade (K-12) education, the Oregon Supreme Court has not mandated specific funding levels. Instead, it ruled that the requirement to fund education should be evaluated in light of available resources. As with other states during periods of relatively weaker revenue performance, Oregon achieved expenditure savings by reducing financial support to local governments. The state also demonstrated a willingness to increase revenues, when necessary, including recent changes to its personal and corporate income tax structures.

The state constitution allows for the issuance of GO bonds, as well as lottery revenue bonds, which must be paid first from net lottery revenues. We understand that, aside from lottery revenue bonds, there is no direct prioritization of debt service under state law, but the governor's statutory allotment authority exempts debt service from across-the-board cuts. We believe that this provides indirect prioritization of debt service. Historically, Oregon has been an active initiative and referendum state, and voters have previously approved or vetoed initiatives, which in our view, has had direct and indirect effects on state revenue and spending autonomy. The Oregon Legislature can modify statutory initiatives before they go into effect, but not constitutional changes, which require a higher number of signatures to qualify for the ballot.

On a four-point scale, in which '1.0' is strongest and '4.0' is the weakest, we assigned a score of '1.7' to Oregon's governmental framework.

Financial Management

We consider the state's management practices strong under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. Guiding budgeting decisions are financial forecasts extending out at least three years, and the OEA's quarterly revenue forecast, which covers the current biennium and, depending on timing, two subsequent biennia, which in our view, enhances Oregon's long-term budget planning capacity. The state's revenue projections are developed according to Oregon's independent revenue forecast practices. In addition, Oregon maintains a multiyear capital planning framework that identifies funding sources. The state also has a formal investment policy and the state reports on holdings and earnings of these investments quarterly. Oregon maintains a debt policy, and the State Debt Policy Advisory Commission reviews policies and reports on available debt capacity and other key debt metrics annually.

Oregon does not have a minimum reserve policy, but it does have automatic constitutional and statutory mechanisms requiring deposits into its RDF and ESF. Both funds cannot exceed 7.5% of revenues collected in the previous biennium, and the state can, on a three-fifths vote of the legislature, draw on the respective fund under the same provisions as the education stability fund. Oregon has shown a strong track record of building reserves during strong economic times. The state can add to the RDF by as much as 1% of general fund appropriations for a biennium.

Budget management

Oregon has a good track record of proactive budget management in response to downward revisions to forecast revenues through the executive branch's across-the-board "allotment" expenditure reduction authority and a generally structural approach to addressing budgetary imbalances. Occasionally the state has swept unspent but previously appropriated funds as a part of its overall approach to eliminating budget deficits, particularly when they arise on a mid-budget cycle basis. However, the state's leadership has demonstrated a willingness to make difficult fiscal adjustments to restore fiscal balance, including both expenditure and revenue measures, when necessary, which we view as an important strengthening feature to Oregon's credit profile. In the past, the state legislature has met in special session when Oregon has substantially reduced its revenue forecasts.

On a four-point scale, in which '1.0' is the strongest and '4.0' is the weakest, we assigned a score of '1.0' to Oregon's financial management.

Economy

In our view, Oregon's economy largely parallels that of the U.S., while components of the state's economy expanded considerably faster than the nation during much of the past decade. Oregon benefitted from overall steady in-migration of a relatively young and high-skilled workforce that have supported recently strong demographic trends, which ranked among the 10 fastest-growing states (on a percentage basis) between 2012-2021, and at the same time, spurred employment, productivity, and personal income gains relative to the nation. Over a five-year and 10-year period, Oregon's real GSP grew at a compounded annual growth rate of 2.9% and 2.8%, respectively, which compared favorably with the U.S. (2.1%). In 2021, the state's per capita GSP (91% of the nation) and per capita personal income (96% of the nation) are under the national average but remain on an improving trajectory compared with a decade ago.

Following a sharp decline to core economic metrics at the onset of the COVID-19 pandemic, the state experienced steady acceleration in economic activity in 2021 and 2022, recovering the 286,000 reported pandemic-related employment losses by third quarter 2022, according to S&P Global Market Intelligence. S&P Global Market Intelligence estimates Oregon's GSP growth at 2.7% in 2022, although projections indicate a decline to 0.35% growth in 2023 rate due to a projected mild recession. Over the following three years (2024-2026), S&P Global Market Intelligence anticipates GSP will rebound to 1.4%, 2.0%, and 1.8%, respectively, which is largely in line with projections for the U.S.

In our view, Oregon's economy is broad and diverse, with the trade sector comprising the single-largest job segment, at 19.3% of the state's total nonfarm employment in 2021. The education and health services sector makes up 15.9% of employment, followed by government, professional and business services, and leisure and hospitality at 15.2%, 13.4%, and 9.4%, respectively. The state's unemployment rate increased to 4.5% in December 2022 from a low of 3.5 in July 2022, while its labor force participation rate declined to 62.9% from 63.5% over the same period, indicating some cooling in the state's labor market that could persist through 2023.

While the state's economy has a slightly higher reliance on manufacturing employment (10.0%) than the nation (8.4%), its trade connections with Asian markets and an abundant supply of hydroelectric power that fuel low electricity costs make it a center for high-tech manufacturing. The state has the fourth-largest concentration of semiconductor chip companies in the U.S., according to S&P Global Market Intelligence, translating to a somewhat more export-oriented economy than other states, with China the state's leading export market. In 2022, the federal government passed legislation (the CHIPS Act) to incentivize and expand U.S.-based semiconductor chip manufacturing. The state legislature is considering a package of reforms and incentives within its tax structure, environmental regulations, land-use policy, and education system to retain and grow investments from semiconductor chip companies amid increasing domestic competition for the industry. At the same time, we continue to monitor how a strong U.S. dollar, forecasted recessionary conditions on global demand, and adverse changes in trade policy that could affect ties with China and other Asian economies, which could contribute to weaker economic growth potential for the state in the future.

In 2021, Oregon's population was 4.26 million, ranking as the twenty-seventh-most-populous state. Over a five- and 10-year period, Oregon's population increased at a compounded annual growth rate of 0.7% and 0.9%, respectively, which exceeded the U.S. growth rate of 0.5% and 0.6%. The state's population growth slowed to 0.1% in 2021, albeit still in line with the national average, and state officials estimate population trends to improve over the near-term with normalizing in-migration trends and improving affordability. The state's age-dependency ratio, which measures the portion of the population that is younger or older than working age, remained relatively unchanged in 2020 (latest available annual data) at 63.6, which remained slightly below the U.S. level (63.8).

On a four-point scale, in which '1.0' is the strongest and '4.0' is the weakest, we assigned a score of '1.8' to Oregon's economy.

Budget Performance

Over the past five fiscal years, the state gradually built and retained strong reserve levels, emphasizing structural balance and growing a larger financial cushion. In the current biennium, Oregon maintained fiscal controls, while experiencing a faster-than-anticipated economic recovery, resulting in stronger-than-anticipated revenue collections. At the same time, enhanced federal support for medical (the largest portion being Medicaid) and other financial assistance programs during the pandemic eased the state-share of these costs, contributed to Oregon's $1.6 billion operating surplus (or 12.9% of general fund expenditures) for fiscal year 2021, measured on a generally accepted accounting principles basis.

Oregon's enacted budget for the fiscal 2021-2023 biennium totaled $26.9 billion for the combined general and lottery funds at the close of the 2021 legislative session, which represented 12.1% growth from approved spending levels for the previous 2019-2021 biennium. The largest appropriation categories support K-12 education (32% of the budget) and human services (30%). During the state's 2022 short session, it increased the fiscal 2021-2023 biennium total to $29.3 billion for combined general fund and lottery funds, primarily to support education and housing programs, representing a 22.6% increase from approved spending levels for the 2019-2021 biennium.

In our view, Oregon's general fund revenue is highly concentrated, with personal and corporate income taxes comprising 93.6% of projected general fund revenue for fiscal 2023, potentially exposing it to significant revenue volatility during economic downturns and gyrations in financial markets. However, the state took some recent steps to broaden and diversify its revenue base. In 2019, the legislature created a corporate activity tax (CAT). The CAT was set at 0.57% on taxable commercial activity above $1.0 million and began Jan. 1, 2020. In addition, PIT rates for the three lowest brackets were reduced by 0.25% to 4.75%, 6.75%, and 8.75%, respectively. Collections from the CAT are allocated to the Fund for Student Success to further support the state's educational system, including providing grants for school districts and early education programs. We viewed the creation and development of the CAT as favorable, given that it provides a recurring funding mechanism to invest in educational initiatives.

In our view, Oregon retains good liquidity with the ability to borrow within a given year from its short-term fund (pooled short-term invested cash of the state and local governments in Oregon). In addition to internal fund borrowing, the state has periodically issued tax anticipation notes in the past but does not anticipate doing so in the current or next biennium.

On a four-point scale, in which '1.0' is the strongest and '4.0' is the weakest, we assigned a score of '1.8' to Oregon's budgetary performance.

Debt And Liabilities

We view Oregon's debt burden as moderate-to-moderately high. For fiscal 2021, tax-supported debt is $2,228 per capita, which we consider moderately high, and 3.5% of GSP, 3.6% of personal income, and 5.1% of general government spending, all of which we consider moderate. Debt amortization is rapid, in our view, with approximately 61% of principal amortized over 10 years. When factoring in pro forma debt amortization and $1.68 billion of anticipated bond issues during the 2023-2025 biennium, we estimate debt ratios remaining moderate to moderately high.

Under the state's COPs program, which begun in 1989, approximately $90.2 million of COPs are outstanding as of June 30, 2022. The Department of Administrative Services manages all COPs financings for Oregon. This program is expected to be used less as the state views its ability to issue GO bonds for certain projects pursuant to Article XI-Q of the state constitution as more favorable.

Pension liabilities

Although we believe Oregon's pension liabilities as moderate compared with those of other states, we expect long-term pressure stemming from growing unfunded liabilities could weigh on the state's credit profile.

- The state's pension system funding levels are good, in our view, with a three-year average pension funded ratio of 83% for fiscal 2022 and we consider its unfunded liabilities as moderate compared with population and income. However, beyond the outlook period, this metric could fall below our 80% threshold given relatively weak pension funding discipline and expected increases to the unfunded liability.
- The pension system's funding discipline is relatively weak, in our view. In recent years, Oregon's pension funded status declined as contributions failed to fund costs at actuarially determined levels. Over the past decade, Oregon's reported pension funded levels generally declined because the state's pension system lowered its discount rates over time and its court system reversed certain legislative reform efforts, among other factors.

Oregon participates in the Public Employees Retirement System (PERS), a cost-sharing, multiple-employer plan that offers defined benefits to two tiers of participants based on hiring date. PERS is 84.5% funded, with the state's applicable net pension liability of $15.3 billion. The state also makes payments on pension obligation bonds it previously issued in fiscal 2004 to bolster its asset position.

Oregon's contributions to PERS include an actuarially determined employer contribution and the member contribution rate, known as the 6% pickup, which is set by statute. Statutes require the calculation of an actuarially determined contribution based on market valuation, although a "collar" on upward or downward shifts in state contribution rates (as well as a lag between valuation and biennial legislative appropriations) works to limit the budgetary effects of fluctuations in required contributions. The PERS board changed its rate collar methodology to a calculation that we understand prevents the unfunded actuarial liability rate from decreasing below the prior biennium's rate. In addition, the rate for any pool will not be allowed to decrease if the pool's funded status (excluding side accounts) is 87% or lower. The rate could decrease by the collar width if funded status is 90% or greater, and the allowable decrease amount is phased in from 87%-90% funded.

PERS applies a 6.90% discount rate, which we view as in line with other states, but still moderately high, which might contribute to volatility over time. The system reported an annual return of negative 1.55% in 2022, a decline from the 20.00% return in 2021. The annual money-weighted rate of return for PERS was 8.30%. The board made several adjustments to de-risk investment portfolio, and it reduced the assumed long-term investment rate of return in recent years, including lowering it to 7.20% from 7.50% as of fiscal 2018 and lowering it to 7.50% from 7.75% as of fiscal

2016. Contributions to PERS failed to meet our calculation of a static funding progress metric for fiscal 2021, which could lead to declining funded ratios under more subdued market return conditions.

PERS assumes a closed, layered amortization period of 16 years, but the relatively short and favorable closed amortization schedule is offset by its use of the level percentage-of-pay method that assumes rising future payroll and results in escalating pension contributions over time. The plan's ratio of active members to beneficiaries equals 1.15, which is below the median national ratio of 1.26. We believe the system incorporates experience trends and industry standards in its experience study and we favorably view its practice to produce an experience study every two years.

Other postemployment benefits (OPEB) liabilities

Oregon's retiree health care costs are minimal compared with those of peers, in our view, and the state reports a net asset, on an aggregate basis as of June 30, 2022.

Oregon offers health care benefits to eligible retirees through PERS and Public Employees Benefit Board (PEBB). PERS administers explicit subsidies through the cost-sharing, multiple-employer Retirement Health Insurance Account (RHIA) and the single-employer Retiree Health Insurance Premium Account (RHIPA) while PEBB offers an implicit subsidy through a separate single-employer plan. RHIA is designed to supplement Medicare health insurance while RHIPA is available to retirees not yet eligible for Medicare and PEBB is available to retirees who are both not yet eligible for Medicare and not receiving benefits from PERS.

The state reported a combined net OPEB asset across state plans totaling $389.5 million for fiscal year 2022, of which RHIA had a net OPEB asset of $355.3 million and RHIPA had a net OPEB asset of $34.2 million. Effective July 1, 2021, both RHIA and RHIPA applied a discount rate of 6.9% (a reduction from 7.2% previously), while PEBB (due to insufficient assets) applied a discount rate based on a municipal bond rate that fluctuates with market conditions. We do not view this volatility's effect on year-over-year reported liabilities as indicative of fundamental plan change, all else being equal.

On a four-point scale, in which '1.0' is strongest and '4.0' is the weakest, we revised our score to Oregon's debt and liability profile to '1.7' from '2.0', reflecting an improvement in the three-year pension funded ratio to levels that we view as good, and, in our view, debt amortization improving to rapid from average.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of February 27, 2023)		
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon APPROP		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of February 27, 2023) (cont.)		
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon APPROP (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of February 27, 2023) (cont.)		
Oregon GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO bnds veterans		
Long Term Rating	AA+/A-1/Stable	Affirmed
Oregon GO bnds (veteran's welfare bnds ser 109) (fixed rate) ser D due 06/01/2033		
Long Term Rating	AA+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon GO VRDB (Veterans Welfare)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Oregon GO (Veterans Welfare)		
Long Term Rating	AA+/Stable	Affirmed
Oregon Dept of Admin Svcs, Oregon		
Oregon		
Oregon Dept of Admin Svcs (Oregon) APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon Dept of Admin Svcs (Oregon) APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oregon Dept of Admin Svcs (Oregon) GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon Dept of Admin Svcs (Oregon) (Elliott State Forest) APPROP		
Long Term Rating	AA/Stable	Affirmed
Oregon Dept of Energy, Oregon		
Oregon		
Oregon Dept of Energy (Oregon) GO		
Long Term Rating	AA+/Stable	Affirmed
Oregon Dept of Veterans Affairs, Oregon		
Oregon		
Oregon Dept of Veterans Affairs (Oregon) (Veterans Welfare) GO		

Ratings Detail (As Of February 27, 2023) (cont.)		
Long Term Rating	AA+/Stable	Affirmed
Oregon Dept of Veterans Affairs (Oregon) (Veterans Welfare) GO		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Oregon St Brd of Hgr Ed, Oregon		
Oregon		
Oregon St Brd of Hgr Ed (Oregon) GO		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.