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Ratings

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Summary:

Tri-County Metropolitan Transportation District, Oregon; Miscellaneous Tax

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Credit Profile		
US$94.155 mil sr lien payroll tax rev rfdg bnds ser 2017A due 09/01/2041		
Long Term Rating	AAA/Stable	New
Tri-cnty Metro Transp Dist payroll & ltd tax pledge		
Long Term Rating	AAA/Stable	Affirmed
Tri-Cnty Metro Transp Dist payroll and self-employment tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AAA' rating to Tri-County Metropolitan Transportation District (TriMet), Ore.'s 2017A senior-lien payroll tax revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the district's senior-lien payroll tax revenue bonds outstanding. The outlook is stable.

The ratings reflect our view of:

- The stability and breadth of the Portland economic base, the state's main metropolitan area;
- Exceptional 11.4x coverage of projected maximum annual debt service (MADS) by historical revenues;
- The district's reliance on pledged revenues for approximately 60% of operations; and
- The district's gross pledge of revenues, whereby the bond trustee releases revenues to TriMet only after debt service and reserve requirements are met, and a 4x additional bonds test (ABT).

The payroll and self-employment tax revenue senior-lien bonds are secured by a gross pledge of tax revenues levied on employers, with respect to their wages paid, within TriMet's service area. Also pledged is a tax on the net earnings of self-employed individuals. The 2017A bonds are being issued to pay costs of transit-related capital projects.

The district was created in 1969 to provide mass transit service to the Portland metropolitan area. The district includes the urbanized parts of Multnomah, Clackamas, and Washington counties and serves approximately 1.8 million people within a 605-square-mile area of the Portland metropolitan statistical area. The Portland area has grown considerably during the past 10 years and has become a commercial, manufacturing, and trade and service center with a modern, competitive economy.

The region has not been immune to the economic recession; pledged revenues fell 2.6% in fiscal 2009 and increased very slightly, by only 0.2%, in fiscal 2010. However, since then, revenues have risen from 2011 to 2016. These increases have boosted revenues to $324 million in fiscal 2016. Annual coverage rose to 17.2x. With the 2017A issue, MADS will rise to $28.4 million in 2019, with coverage of 11.4x based on fiscal 2016 revenues. Also adding stability to the revenue stream is the district's ability to increase the tax rate by up to 1% over 10 years. The district has been increasing its tax rate by 0.1% annually since 2015. In addition, Oregon's seasonally adjusted annual unemployment rate decreased to 4.6% in December 2016, below the national level. Management expects revenues to increase by 5.6% in fiscal 2017.

Pledged revenues are collected as a percentage of an employer's payroll and will likely therefore provide some measure of protection from inflation, since wages tend to follow trends in inflation if employment opportunities are consistent.

We anticipate that debt service coverage (DSC) will remain high due to legal restrictions on the issuance of additional bonds and to practical constraints. The ABT is strong, in our view, at 4x. As with most transit agencies, farebox revenue collected from riders falls well short of what is needed to fund operations. At TriMet, most supplemental funding--about 60% of the total operating budget--comes from the payroll and self-employment tax. We believe this reliance on pledged revenues for operations makes it unlikely that TriMet will issue sufficient parity debt to erode DSC.

TriMet projects issuing up to $330 million of additional senior-lien bonds through 2021 to fund its five-year capital program but does not plan on issuing any additional debt in the next two years. The amount of bonds issued could decrease should the district receive additional funding or grants.

Although the debt is rated above the U.S. sovereign rating, TriMet has a predominantly locally derived revenue base. This, coupled with operating expense flexibility, precludes exposure to federal revenues.

Outlook

The stable outlook reflects our anticipation that the Portland metropolitan area's economic and demographic characteristics will continue to support consistent growth in pledged revenues, leading to exceptional DSC. We do not expect to change the ratings within the two-year outlook time frame. Should DSC fall significantly to a level commensurate with that of lower-rated peers, through new issuances or a steep decline in revenues, we could consider lowering the ratings.

Related Research

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015