

## CREDIT OPINION

26 January 2017

### New Issue

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# Tri-County Metropolitan Transportation District of Oregon (TriMet)

New Issue - Moody's Assigns Aaa to TriMet's (OR) \$94M Senior Lien Payroll Tax Bonds Series 2017A; Outlook Stable

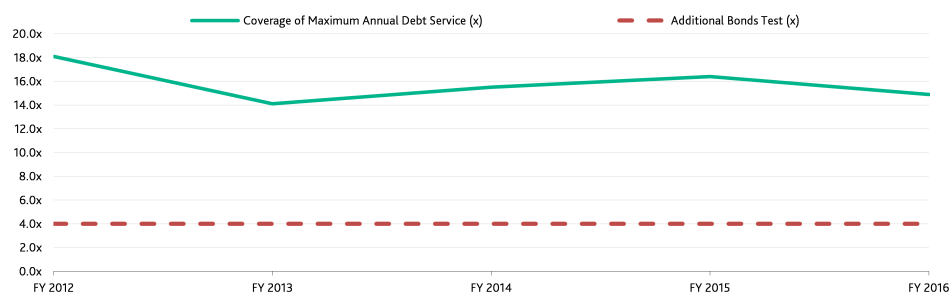
## Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Tri-County Metropolitan Transportation District of Oregon's (TriMet) \$93.6 million Senior Lien Payroll Tax Revenue Bonds, Series 2017A. The bonds are expected to price on February 8.

The Aaa rating reflects the robust economic growth in the TriMet service area, along with TriMet's strong management of operations and capital projects. The rating also incorporates TriMet's notably strong legal provisions that include a four times additional bonds test (ABT), the highest in the tax-backed transit sector; trustee intercept of pledged revenues, which insulates bondholders from possible operating stress; and weekly set asides of pledged revenues. Other rating considerations include the strength of the gross senior lien pledge of state in-lieu payments and payroll and self-employment taxes collected in the "Tri-County" area of Oregon, and TriMet's future debt plans.

Exhibit 1

### MADS Coverage Over 3x Leverage Constraint for Past 5 Years



Source: Moody's Investors Service

## Credit Strengths

- » Very strong 4 times additional bonds test, which is the highest in the sector
- » Sizeable and strong economic base from which the pledged revenues are derived, and the resilience of the payroll tax during times of economic recession relative to other tax-backed transit credits

- » The state legislature's ability and historic willingness to increase the payroll tax rate to maintain sound debt service coverage

## Credit Challenges

- » Region's unemployment tends to surpass that of the state and US during times of recession
- » Five-year capital plan includes debt issuance that could more than double the amount of bonds currently outstanding

## Rating Outlook

The stable outlook reflects our expectation that debt service coverage will remain sound despite future borrowing.

## Factors that Could Lead to an Upgrade

- » Not applicable

## Factors that Could Lead to a Downgrade

- » Lower debt service coverage resulting from economic weakness or aggressive issuance of new debt absent new revenue sources
- » Legislative changes that adversely affect the enacted payroll tax increases

## Key Indicators

Exhibit 2

Tri-County Metropolitan Transportation District of Oregon	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Coverage of Maximum Annual Debt Service (x)	18.1x	14.1x	15.5x	16.4x	14.9x
Total Debt Outstanding (Mil.)	\$133	\$212	\$193	\$185	\$248
Pledged Revenue (Mil.)	\$248	\$259	\$275	\$291	\$324
Pledged Revenue Annual Change	10.3%	4.2%	6.2%	6.1%	11.2%
Additional Bonds Test (x)	4.0x	4.0x	4.0x	4.0x	4.0x

Source: Moody's Investors Service

## Detailed Rating Considerations

### Tax Base and Nature of Pledge

Oregon has no sales tax and TriMet is unique when compared to other transit agencies, which are generally funded by sales and use taxes. The district's primary source of funding consists of payroll and self-employment taxes, which accounted for 59.4% of gross revenues and 99.4% of pledged revenues in fiscal 2016. Over the long term, TriMet's payroll tax has proven to be a relatively more stable and predictable source of revenues. However, the [Portland](#) (Aaa stable) metropolitan area has been particularly vulnerable to economic fluctuations, as evidenced by high unemployment rates, which exceeded national and state levels during recessionary peaks. Peak unemployment of 11.3% in Portland came in May 2009, well above the US rate of 9.4% for the same period. The unemployment rate has since improved significantly as of November 2016 for the US at 4.4% and the counties in which TriMet operates: [Clackamas](#) (Aa1 stable), [Multnomah](#) (Aa1 stable) and [Washington](#) (Aaa) at 4.1%, 3.9%, and 3.8%, respectively.

### Debt Service Coverage and Revenue Metrics

Fiscal 2016 pledged tax receipts provide pro forma MADS coverage of 11.4 times on outstanding bonds, including the new issue. Coverage levels are likely to remain strong despite TriMet's plan to issue approximately \$330 million of senior lien bonds between fiscal 2019 and 2022 to finance its capital improvement program, including annual bus replacements, state of good repair projects, and other capital acquisitions. These borrowing plans will increase TriMet's debt levels significantly; however, we expect pledged revenues will continue to provide ample debt service coverage.

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Despite the surges in unemployment during times of economic volatility, the pledged revenues historically only experience modest declines, most significantly in self-employment taxes, which represent about 5.0% of the total. Since 1991, pledged revenues for TriMet have remained fairly resilient and less volatile than many of its other transit system peers that rely on sales and use tax revenues. In the past ten years, the pledged revenues have only experienced one year of decline of 2.6% in 2009. Notably, the average peak one-year decline for special tax-backed transit credits over the same period was 6.2%.

The recession's impact on the pledged revenues was mitigated by a multi-year phase-in of increases to the payroll tax rate, approved by the state legislature in 2003. The legislation authorized TriMet to increase its payroll and self-employment tax rate by \$0.10 per \$1,000 of payroll each year for ten years, which the TriMet board implemented January 1, 2005 and ended January 1, 2014. In 2009, the state legislature authorized the TriMet board to increase the payroll and self-employment tax rate a second \$1.00 per \$1,000 of payroll to help support TriMet's significant future capital projects and expanded transit operations. This would ultimately raise the total payroll tax rate to \$8.237 per \$1,000 of payroll.

The second rate increase is to be phased-in over a multi-year period with annual increases no greater than \$0.20 per \$1,000 of payroll. The TriMet board can implement the increase only after determining that the economy in the district has recovered enough to warrant the increase. It is noted that the payroll tax rate increases are subject to future TriMet board action, but are not subject to voter referral. In September 2015, the board approved implementation of the increase, and the phase-in began January 2016. The full increase of 1/10th of a percent will be spread evenly over 10 years. TriMet's current tax rate is \$7.437 per \$1,000 of payroll, up from \$7.237 in 2015. Fiscal 2016 pledged revenues increased by 11.2% from the previous year. Management projects pledged revenues to increase by 5.6% in fiscal 2017. For the first half of fiscal 2017, payroll tax collections grew by 7.8% compared to the same period last year.

#### LIQUIDITY

The pledged revenue stream provides timely and ample liquidity for the payment of debt service. At the end of fiscal 2016, the authority had 48 days of unrestricted cash on hand.

#### Legal Covenants and Debt

Payroll taxes are payable quarterly, 30 days after the end of each calendar quarter, and self-employment taxes are due annually on April 15. The Oregon Department of Revenue collects the taxes and remits the receipts, less administrative costs, to the trustee on a weekly basis. Only after the trustee makes weekly set-asides of interest and principal do the revenues flow to the authority for operations. The trustee intercept of the payroll tax is a strong legal feature that insulates bondholders from possible fiscal stress of TriMet. The additional bonds test is the strongest among our rated transit systems at 4.0 times maximum annual debt service. The strength of the legal provisions are important factors in the Aaa rating and mitigate the absence of a debt service reserve.

#### DEBT STRUCTURE

All of TriMet's debt is fixed-rate, and its outstanding senior lien bonds consist of seven separate series. The total amount of senior lien payroll tax bonds outstanding, including this issue, will be approximately \$331 million.

#### DEBT-RELATED DERIVATIVES

TriMet has no debt-related derivatives.

#### Management and Governance

TriMet's strong management was notably important in the completion of its largest capital project to date, the Portland-Milwaukie Light Rail (PMLR), which cost roughly \$1.5 billion. The PMLR line connects Portland State University in downtown Portland, inner Southeast Portland, the City of Milwaukie and north Clackamas County. Construction on the PMLR project began in July 2011 and revenue operations commenced in September 2015. The project was completed on-time and about \$48 million under budget.

To address the impact of the financial recession, TriMet underwent a series of cost reductions through service cuts, non-union wage and hiring freezes, administrative layoffs, and deferral of capital purchases to balance its budgets. A five-year (2012-2016) average net margin of 7.1% illustrates TriMet's ability to balance its budget and generate sufficient cash flow to offset operating contingencies and reinvest in capital assets. TriMet has experienced operating surplus growth over the past four years increasing to 11% of gross revenues in fiscal 2016 from 4.0% in fiscal 2013.

TriMet's Board continues to follow best practices and focuses on the long-term financial health of the transit system. TriMet's Board adopted a strategic financial plan in 2014, which included an unrestricted fund balance and contingency policy approved by resolution and calls for unrestricted fund balance equal to no less than 2.5 times average monthly operating expenditures, and a budgeted contingency set no lower than 3% of total operating requirements. The current debt management policy, adopted in April 2014, projects debt service on TriMet's senior lien payroll tax bonds, lease payments and full faith and credit bonds shall remain below 6% of TriMet's continuing revenues until TriMet begins to replace or add to the light rail vehicle fleet.

### Legal Security

The bonds are secured by a gross pledge of payroll and self-employment tax receipts levied in the Tri-County area. Starting in fiscal 2010, the pledged revenues were expanded to include payments in-lieu of taxes made by the state on behalf of its employees in the Tri-County area, which account for less than 1% of pledged revenues.

### Use of Proceeds

The 2017A bonds will mainly finance bus replacements as well as other various capital projects.

### Obligor Profile

TriMet provides public transportation services in the City of Portland metropolitan area with a total estimated population of 1.6 million or 39% of the state's total population. TriMet is one of the most heavily utilized systems in the transit sector. The service area encompasses a 533 square mile area within the counties of Multnomah, Washington and Clackamas. Transportation services provided by TriMet include bus service, streetcar, light rail (also known as the Metropolitan Area Express or MAX), and commuter rail or the Westside Express Service (WES). There are approximately 100 million annual boardings, with 323,000 trips taken each weekday.

### Methodology

The principal methodology used in this rating was the US Public Finance Special Tax Methodology published in January 2014. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

### Ratings

Exhibit 3

#### TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT, OR

Issue	Rating
Senior Lien Payroll Tax Revenue Bonds, Series 2017A	Aaa
Rating Type	Underlying LT
Sale Amount	\$93,570,000
Expected Sale Date	02/08/2017
Rating Description	Special Tax: Transportation-Related

Source: Moody's Investors Service

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