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Ratings

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Summary:

Tri-County Metropolitan Transportation District, Oregon; Miscellaneous Tax

Primary Credit Analyst:
Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@spglobal.com

Secondary Contact:
Chris Morgan, San Francisco (1) 415-371-5032; chris.morgan@spglobal.com

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Credit Profile		
US$143.905 mil sr lien payroll tax rev bnds ser 2018A due 09/01/2048		
Long Term Rating	AAA/Stable	New
Tri-cnty Metro Transp Dist payroll & ltd tax pledge		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to Tri-County Metropolitan Transportation District (TriMet), Ore.'s 2018A senior-lien payroll tax revenue bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the district's senior-lien payroll tax revenue bonds outstanding. The outlook is stable.

The rating reflects our view of:

- The stability and breadth of the Portland economic base, the state's main metropolitan area;
- Exceptional 10.1x 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 2018A 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 2017. These increases have boosted revenues to $336.2 million in fiscal 2017. Annual coverage was 14.0x. With the 2018A issue, MADS will rise to $33.2 million in 2019, with coverage of 10.1x based on fiscal 2017 revenues. Also adding stability to the revenue stream is the district's ability to increase the tax rate by up to 0.1% over 10 years. The district has been increasing its tax rate by 0.01% annually since 2015. In addition, Oregon's seasonally adjusted annual unemployment rate decreased to 4.1% in 2017, below the national level of 4.4%. Management expects revenues to increase by 7% in fiscal 2018, based on projections and revenues through February.

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 $100 million of additional senior-lien bonds every other year through 2026 to fund part of its capital program. The amount of bonds issued could decrease should the district receive additional funding or grants.

Our issue ratings are based on our view that the district's general creditworthiness can be above that of the U.S. sovereign. This reflects our view that the district would not default in a stress scenario likely to accompany a sovereign default given autonomy from sovereign intervention. We view the district as exhibiting relatively low funding interdependency with the federal government, as local taxes represent the vast majority of total governmental funds revenue. However, consistent with our view that U.S. state and local governments are moderately sensitive to country risk, should our view of the district's general creditworthiness deteriorate, we would be unlikely to set issue ratings more than two notches above the U.S. sovereign rating.

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 rating 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 rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.