

CREDIT OPINION

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Tri-County Metropolitan Transportation District (TriMet), OR

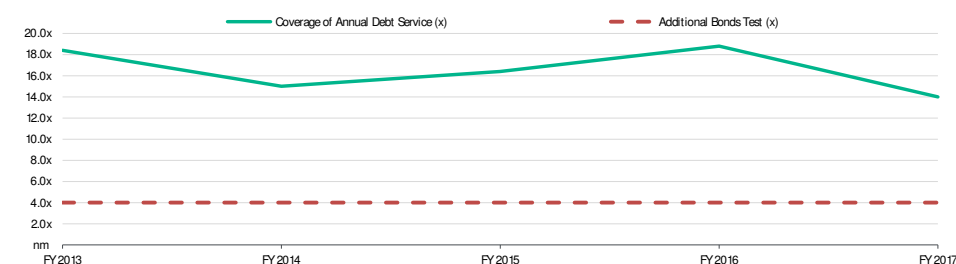
Update to credit analysis--TriMet's senior lien payroll tax revenue bonds

Summary

The Tri-County Metropolitan Transportation District of Oregon's (TriMet's) senior lien payroll tax bonds (Aaa stable) benefit from extremely high coverage of debt service by pledged revenues which consist primarily of payroll taxes collected by the [State of Oregon](#) (Aa1 stable) in the [Portland](#) (Aaa stable) metropolitan area, along with strong legal provisions which include a four times additional bonds test (ABT), trustee intercept of pledged revenues, and weekly set asides of pledged revenues. Notably, the pledged revenues have proven to be much less volatile across economic cycles than the sales taxes that secure most transit debt. The rating also incorporates the robust economic growth in TriMet's service area, and its strong management of operations and capital projects.

Exhibit 1

Coverage by pledged revenues has been consistently well above the additional bonds test



Source: TriMet official statements

Credit strengths

- » Very strong 4 times additional bonds test, which is the highest in the tax-backed transit sector.
- » Sizeable and diverse economic base from which the pledged revenues are derived, and the resilience of the pledged payroll taxes 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 fund operations and maintain sound debt service coverage.
- » Direct payment of pledged revenues to the trustee by the State of Oregon.

Credit challenges

- » Significant capital needs which could drive a greater-than-expected increase in debt levels.

Rating outlook

The stable outlook reflects our expectation that debt service coverage will remain well above the ABT due to the strength of the pledged revenue stream and debt policies that limit 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

TriMet Senior Lien Payroll Tax Bonds	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Coverage of Annual Debt Service (x)	18.4x	15.0x	16.4x	18.8x	14.0x
Total Debt Outstanding (Mil.)	212	193	185	248	335
Pledged Revenue (Mil.)	\$259	\$275	\$291	\$324	\$336
Total Pledged Revenue Annual Change	4.2%	6.2%	6.1%	11.2%	3.7%
Debt as a % of Pledged Revenue	82.0%	70.4%	63.4%	76.6%	99.6%
Additional Bonds Test (x)	4.00x	4.00x	4.00x	4.00x	4.00x

Sources: TriMet official statements and annual financial statements; Moody's calculations

Profile

Created in 1969, TriMet provides light rail, bus and a heavy rail commuter service to the Portland, Oregon area counties of [Multnomah](#) (Aaa stable), [Washington](#) (Aaa) and [Clackamas](#) (Aaa stable). It serves a population of 1.8 million, approximately 40% of the state's. Annual ridership totaled 99 million in fiscal 2017, a slight decline from a peak of 103 million in 2012.

Detailed credit considerations

Tax Base and Nature of the Pledge

Pledged revenues, which also represent TriMet's primary source of non-farebox operating funds, consist of payroll taxes and self-employment taxes collected by the state in TriMet's service area and, since fiscal 2010, in-lieu payment made by the state on behalf of its employees in the area. Payroll taxes represent the vast majority of the total; in fiscal 2017 payroll taxes were 94.6% of total pledged revenues. In this regard, TriMet is unique compared to other rated transit agencies, which are generally funded primarily by sales and use taxes.

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 TriMet for operations. The trustee intercept of the payroll tax insulates bondholders from possible fiscal stress at TriMet.

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Debt Service Coverage and Revenue Metrics

Recent trends in pledged revenues have been very positive and these revenues have proven to be notably less volatile across economic cycles than sales and use taxes. Pledged revenues increased in all but one of the 10 fiscal years through fiscal 2017. In the single year of decrease, the recession year of 2009, the decline was only 2.6%, much less than the drop in sales taxes experienced by many transit agencies at that time. The compound annual growth rate for the five years ending in fiscal 2017 was 6.3%.

The recession's impact on the pledged revenues was mitigated, in part, 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 \$1.00 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. In 2015 the board approved a phase-in of the increase beginning January 2016. The full increase of \$1.00 per \$1,000 will spread evenly over 10 years.

Coverage of debt service by pledged revenues is extremely high and expected to remain so. Annual debt service coverage for the ten fiscal years through fiscal 2017 averaged 16.0 times, with a high of 18.8 in fiscal 2016 and a low of 13.7 times in 2011. Fiscal 2017 pledged revenues of \$336.1 million provide 10.1 times coverage of maximum annual debt service (\$33.2 million in fiscal 2019) following the planned issuance of the Series 2018A bonds. TriMet currently anticipates issuing \$300 million or more of senior lien payroll tax bonds between fiscal years 2019 and 2026, but coverage should remain well above the additional bonds test of 4.0 times.

LIQUIDITY

The pledged revenue stream and high coverage provide timely and ample liquidity for the payment of debt service.

Debt and Legal Covenants

DEBT STRUCTURE

Following the planned issuance of its Series 2018A bonds, TriMet will have \$467 million senior lien payroll tax revenue bonds outstanding. TriMet also has outstanding: \$125 million Full Fund Grant Agreement Bonds (Aa3 stable), secured by a combination of federal transit grants a subordinate lien on payroll taxes; and \$232 million [Capital Grant Receipt Revenue Bonds](#) (GARVEES, A3 stable), secured by federal transit grants. All of this debt is fixed-rate.

The additional bonds test for the senior lien payroll tax bonds is the strongest among our rated transit systems at 4.0 times maximum annual debt service. The strength of the legal provisions mitigate the absence of a debt service reserve.

DEBT-RELATED DERIVATIVES

TriMet has no debt-related derivatives.

PENSIONS AND OPEB

TriMet has moved all new employees to defined contribution plans, but as of June 30, 2017, still had a Net Pension Liability of \$152.5 million in two legacy defined benefit plants. TriMet is making amortization payments to fund this liability. Pensions and OPEB are not a significant factor in Moody's special tax methodology.

Management and Governance

TriMet is a municipal corporation established under state law. TriMet policy is set by a seven-member board. Members are volunteers that each represent a geographical district. Members are appointed to four-year terms by the governor and confirmed by state senate. TriMet has a long term track record of delivering large capital projects on time and on budget.

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