OREGON STATE TREASURY

May 23, 2019

The Honorable Peter Courtney
Oregon State Senate
900 Court Street NE, S-201
Salem, OR 97301

The Honorable Tina Kotek
Oregon House of Representatives
900 Court Street NE, Room 269
Salem, OR 97301

Dear Senate President Courtney and House Speaker Kotek:

My office has been approached by a number of legislators interested in the interaction between provisions of House Bill 2020 and the state's future revenue bonding capacity for transportation-related infrastructure. The question for most, is whether or not the provisions aimed at reducing our transportation system's reliance on carbon-based fuel, and the subsequent reduction in the collection of fuel tax revenue, will impact our current and future ability to maintain our strong credit ratings on ODOT Highway User Tax Revenue bonds.

In an attempt to provide consistent, transparent, and thoughtful feedback, my team has consulted with key legislators, Governor's office staff, Legislative Revenue Office staff, and officials at the Oregon Department of Transportation to provide you with our analysis of the impact of the passage of HB 2020 on future ODOT borrowings.

This is not a new question. Oregon has known for years that fuel taxes are a declining revenue source, and that relying on them to secure transportation-related investments would, without a new revenue source, lead to an eventual reduction in our overall bonding capacity. This is important to our ability to fund on-going preservation, maintenance and transportation improvement needs. Thus, questions about the implications of HB 2020 are familiar. If the carbon reduction provisions in HB 2020 prove successful, they will simply accelerate the Legislature's need to consider new sources of funding.

In an effort to provide more useful guidance, I've asked my staff to explore the interaction of three elements: ODOT-pledged revenue, based on current projections; projected annual debt service once all bonds for HB 2017 projects are issued over the next six years; and the impact of HB 2017 debt issuance and reduced fuel tax revenues on debt service coverage assuming the passage of HB 2020. Our results are summarized in the attached chart.

Please note that we did not develop our own revenue forecast regarding HB 2020, but relied instead on information provided by LRO's forecast of reduced transportation revenues due to the implementation of HB 2020 (which LRO believes will impact both gas tax and weight-mile revenue). In addition, we made assumptions regarding overall transportation revenue growth due to population growth, as well as the assumption that approximately 55% of gross annual transportation revenues can be pledged to ODOT revenue bonds (with the balance of these transportation revenues going to cities and counties).

STATE OF OREGON 1859
350 Winter St NE, Suite 100
Salem, OR 97301-3896
503.378.4000
oregon.treasurer@ost.state.or.us
oregon.gov/treasury

The most important product of this analysis is the resulting debt service coverage ratio forecast, which is key to future credit ratings on ODOT bonds. We have pledged to keep the subordinate lien revenue bonds at a minimum of 2x revenue to debt service; however, to stay at our current AA+/AA1 ratings, the ideal coverage ratio should be 3x or better.

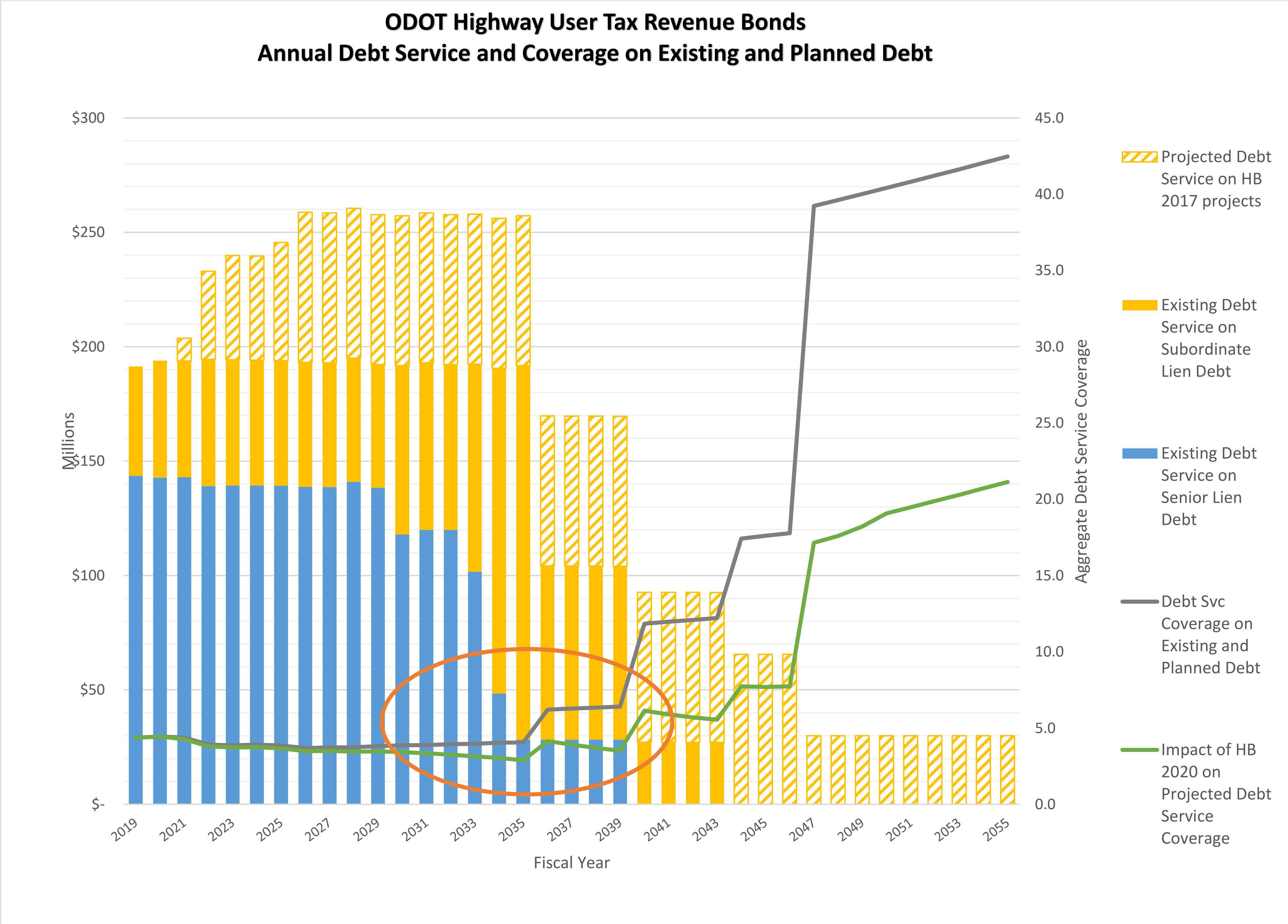
The attached chart offers a visual snapshot of our analysis of the impact of HB 2020 on debt service coverage. As you can see, debt service coverage drops to the 3x level for most of the 2030s, bottoming out in 2035 but improving substantially thereafter, as existing ODOT debt related to the various OTIA and JTA programs is paid off. Assuming that these projections hold true, the passage of HB 2020 should not impact our ability to issue bonds at current credit rating levels for projects authorized by HB 2017. Our ability to issue additional transportation revenue bonds for yet-to-be authorized projects at current credit rating levels may be impacted however, unless additional revenues that may be pledged to bondholders are identified.

In short, our analysis of HB 2020 does little to alter our fundamental conclusions. Oregon's use of transportation sector fuel tax revenues requires an eventual diversification in order to maintain our roads and highways. While there is not an immediate funding crisis, the longer-term reductions in transportation revenue projected by LRO (with or without the passage of HB 2020) suggests that future Legislatures will need to continue to consider various alternative revenue sources to adequately fund our preservation, maintenance, and other transportation-related improvements over time.

We look forward to engaging in conversations with the Legislature to address this important question. Please do not hesitate to reach out to me if you have additional questions or concerns.

Respectfully,

Tobias Read


ODOT Highway User Tax Revenue Bonds
Annual Debt Service and Coverage on Existing and Planned Debt
Millions
$300
$250
$200
$150
$100
$50
$-
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
Aggregate Debt Service Coverage
2019
2021
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
2045
2047
2049
2051
2053
2055
Fiscal Year
Projected Debt Service on HB 2017 projects
Existing Debt Service on Subordinate Lien Debt
Existing Debt Service on Senior Lien Debt
Debt Svc Coverage on Existing and Planned Debt
Impact of HB 2020 on Projected Debt Service Coverage