STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:

Washington; Federal or state grant programs

Primary Credit Analyst:
Mary Ellen E Wriedt, San Francisco (1) 415-371-5027; maryellen.wriedt@standardandpoors.com

Secondary Contact:
Georgina Rovirosa, New York (1) 212-438-7983; georgina.rovirosa@standardandpoors.com

Table Of Contents

1362728 | 300642892

Summary:

Washington; Federal or state grant programs

Credit Profile		
Washington State of Washington GARVEE prog		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term rating on Washington's $786 million series federal highway grant anticipation revenue (GARVEE) bonds outstanding. The outlook is stable.

The rating reflects our view of good future debt service coverage (DSC) based on historical federal grant receipts, and a sound bond structure. All federal highway revenues that the state receives under the Federal-Aid Highway Program (FAHP) administered by the Federal Highway Administration (FHWA) are pledged to the payment of the bonds.

The rating also reflects our opinion of the following credit strengths:

- Strong maximum annual debt service (MADS) coverage on the bonds at 6x based on the federal fiscal 2014 obligation authority (OA), along with essentially level annual debt service requirements;
- A memorandum of understanding (MOU) between the state and FHWA that approves the use of federal aid for debt service;
- Good bond provisions, including a sound additional bonds test requiring the eligible OA the state received in one of the two most recent federal fiscal years to be 3.5x MADS on outstanding and proposed bonds as well as a more restrictive state policy that includes a 3.75x multiple for additional debt; and
- Generally positive trends in OA and receipts of Title 23 federal aid money, as well as the state's track record of maximizing federal grants and effectively managing the grant reimbursement process.

In our view, partly offsetting the preceding credit strengths are the narrow pledge of federal transportation funds to the state and a possible drop in pledged revenues resulting from a decline in funds from the Highway Trust Fund (HTF) or in Congress-appropriated amounts, changes to the FAHP, or delays to congressional reauthorization.

A direct pledge of all FAHP funds paid to the state secures the GARVEEs. The bonds were issued to finance a portion of the costs of the state's State Route 520 Project. The state's GARVEE bonds have a final maturity of Sept. 1, 2024.

OA (including redistributions) grew to $671 million in federal fiscal 2010, before decreasing slightly to $649 million in federal fiscal 2011, then declining further to $619.3 million in federal fiscal 2012. OA was essentially flat in federal fiscal 2013 at $620 million, then increased in federal fiscal 2014 to $631 million. Actual reimbursements were $813 million in federal fiscal 2012 and $671 million in federal fiscal 2013, and are expected to be $880 million in federal fiscal 2014. Given constrained federal resources, we anticipate funding levels will be lower in the future, but we do not expect the lower funding levels will affect the credit quality of these bonds.

MADS coverage of the state's GARVEE bonds is strong, in our view, at 6x based on federal fiscal 2014 OA of $630 million. MADS is $102 million; debt service is basically level. No additional debt is planned. DSC will likely remain strong, in our opinion, even with reductions in federal receipts. We view the bond provisions as good for a stand-alone GARVEE structure; these include a supportive legal framework provided by the enabling legislation, the MOU, and a master bond resolution.

The rating on these GARVEE bonds, like all other GARVEE ratings we maintain, assumes that the supportive legislative framework and Congressional appropriations funding transportation grant programs will continue into the future through the enactment of multiyear authorizations or continuing temporary extensions. This assumption is based on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire.

We believe potential delays in authorizations, changes in law, declining HTF balances, or Congressional or administrative modifications to grant programs will not end the longstanding practice of federal aid for transportation on which we base our grant anticipation ratings. However, program rule changes, constrained funding sources, and federal budget pressures could lead to lower authorization and appropriation levels and diminish coverage, which we currently view as very strong for most transportation grant-backed bonds we rate.

On July 31, 2014, Congress approved a bill to provide $10.8 billion in short-term funding to address the dwindling balance in the HTF. If no action had been taken, funding for states and other transportation agencies would have been curtailed by 28% as of Aug. 1, and the HTF would have run out of money that was promised to states for highway and transit programs by September 2014. However, this patch provides only enough money to sustain the highway and transit programs through May 2015. Congress is continuing to seek a long-term funding solution.

While Standard & Poor's believes this congressional action alleviates the immediate pressure on GARVEE issuers, the delay and uncertainty regarding renewal authorizations to the surface transportation bill (most recently, the Moving Ahead for Progress in the 21st Century Act, or MAP-21) highlight the key credit weakness of GARVEE ratings. Although the likelihood that future federal transportation funding would be discontinued is remote, in our view, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and future erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that negatively affect recipients. In our opinion, both the history of the program and its vital role in preserving and expanding the national highway system, as well as the significant funding needs facing surface transportation and the lack of resources to fund those needs, support continued reauthorization of the program for the foreseeable future. We will closely monitor the sector both during and after reauthorization in order to evaluate how each individual state's debt plans may be adjusted.

In addition to applying our "U.S. Federal Transportation Grant-Secured Obligations" criteria we also are applying our "U.S. Federal Future Flow Securitization" criteria to determine the maximum possible rating level relative to the U.S. debt rating because Washington's GARVEE bonds are solely secured by federal aid cash flows. Our application of such criteria on Washington's GARVEE program resulted in an overall score of '1.2.', indicating that the maximum possible rating level is 'AA', 1 notch below the U.S. debt rating.

Outlook

The stable outlook reflects our anticipation that the long-standing FAHP will continue to receive significant funding and that the state will continue to receive its historical share of annual Title 23 distributions. The outlook also reflects our assumption of continued strong coverage levels despite potentially lower federal reimbursement levels, as well as the timely receipt of pledged revenues. We do not expect to lower the rating given the coverage levels, and we don't expect to raise the rating given the "U.S. Federal Future Flow Securitization" criteria.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations, May 29, 2009
- USPF Criteria: Federal Future Flow Securitization, March 12, 2012

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.