Rating Action: Moody's downgrades 27 GARVEE bond ratings and revises outlooks to negative

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Approximately $10 billion in outstanding debt affected; Arizona GARVEEs confirmed at Aa2 with a stable outlook

New York, November 14, 2012 -- Moody's Investors Service has downgraded 27 GARVEE bond ratings by one notch and revised their outlooks to negative. The action affects 20 ratings of GARVEEs secured solely by a pledge of federal highway aid and 7 ratings of mass transit GARVEEs. Concurrently, we have also confirmed the Aa2 rating of the Arizona Transportation Board's Grant Anticipation Notes and revised the outlook to stable.

SUMMARY RATING RATIONALE

The downgrade of the standalone GARVEE programs reflects increased credit challenges related to two primary factors: (1) the shorter duration of the current highway funding reauthorization and the possibility that more frequent reauthorizations could disrupt or reduce the funds available to pay the bonds; and (2) the structural imbalance of the federal Highway Trust Fund (HTF), which further increases programmatic risks of GARVEEs.

The outlooks on the standalone GARVEE programs are negative, due to the uncertainty around future federal reauthorizations and funding levels.

The confirmation of Arizona's Aa2 GARVEE rating and revision of the outlook to stable reflects our assessment of additional state funds that the state is legally obligated to apply to the payment of debt service if necessary.

STRENGTHS

-- Transportation infrastructure is essential to economic functioning of the U.S. and has defense benefits

-- Long history of uninterrupted flow of federal funds to states and, to a lesser degree, mass transit agencies

-- High leverage constraints and debt service coverage ratios for stand-alone highway GARVEEs; adequate leverage constraints and debt service coverage ratios for mass transit GARVEEs

CHALLENGES

-- Shorter two-year duration of current transportation reauthorization compared to prior ones increases likelihood of future changes that negatively affect funds available for debt service, including funding reductions and program suspensions

-- The federal government is under no obligation to continue the federal aid highway program; nothing prevents the federal government from making programmatic changes detrimental to bondholders

-- Insufficiency of ongoing fuel tax revenues to fund federal transportation needs necessitates general fund support, which has become less likely in light of federal budgetary pressure

AFFECTED ISSUERS

TO Aa2 FROM Aa1:

Ohio Department of Transportation (Major New State Infrastructure Project Revenue Bonds)

TO Aa3 FROM Aa2:

Alabama Federal Aid Highway Finance Authority (Federal Highway Grant Anticipation Refunding Bonds)

California Department of Transportation (Federal Highway Grant Anticipation Bonds)

Delaware Transportation Authority (Grant Anticipation Bonds)

District of Columbia (Federal Highway Grant Anticipation Revenue Bonds)

Georgia State Road and Tollway Authority (Federal Highway Grant Anticipation Revenue Bonds)

Idaho Housing and Finance Association (Grant and Revenue Anticipation Bonds Federal Highway Trust Fund)

Kentucky Asset/Liability Commission (Project Notes, Federal Highway Trust Fund)

Maine Municipal Bond Bank (Grant Anticipation Bonds)

Michigan (Grant Anticipation Bonds -- 2009 series)

Montana Department of Transportation (Grant Anticipation Notes)

New Hampshire (Federal Highway Grant Anticipation Bonds)

North Carolina (Grant Anticipation Revenue Vehicle Bonds)

Oklahoma Department of Transportation (Grant Anticipation Notes)

Rhode Island Economic Development Corporation (Grant Anticipation Bonds)

Washington (Grant Anticipation Revenue Bonds)

West Virginia Commissioner of Highways (Surface Transportation Improvements Special Obligation Notes)

TO A1 FROM Aa3

Michigan (Grant Anticipation Bonds -- 2007 series)

New Jersey Transportation Trust Fund Authority (Grant Anticipation Bonds)

New Jersey Transit Corporation (Senior Master Lease Certificates of Participation)

TO A2 FROM A1

Chicago Transit Authority (Capital Grant Receipts Revenue Bonds -- Section 5309 bonds)

Chicago Transit Authority (Capital Grant Receipts Revenue Bonds -- Section 5307 bonds)

New Jersey Transit Corporation (Subordinate Master Lease Certificates of Participation)

Puerto Rico Highway and Transportation Authority (Grant Anticipation Revenue Bonds)

Southeastern Pennsylvania Transportation Authority (Capital Grants Receipts Bonds)

Tri-County Metropolitan Transportation District, OR (Capital Grant Receipt Revenue Bonds)

TO A3 FROM A2

Alaska Railroad Corporation (Capital Grant Receipts Bonds)

OUTLOOK

The negative outlook on the standalone GARVEE bond ratings reflects continuing uncertainty surrounding federal transportation funding. The US sovereign rating is Aaa with a negative outlook stemming from risks related to high federal government debt ratios. De-prioritization of transportation funding relative to deficit reduction would be a credit negative.

WHAT COULD MAKE THE RATINGS GO UP

-- Significant and sustained increase in Highway Trust Fund revenues outside of general fund support combined with longer reauthorization periods and reinstatement of guaranteed funding protections

WHAT COULD MAKE THE RATINGS GO DOWN

-- Discontinuation or reduction in federal transportation grant program

-- Lapse in reauthorization of transportation spending

-- Sharp decline in underlying HTF revenues caused by economic stress, tax inefficiency or redirection of fuel taxes to general fund

--Individual GARVEE ratings could go down if further leveraging materially reduces coverage of maximum annual debt service

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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