

**Rating Action: Moody's downgrades 26 GARVEE ratings exposed to increasing structural imbalance of Highway Trust Fund; outlooks revised to stable**

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**\$8.5 billion of debt affected**

New York, June 16, 2014 -- Moody's Investors Service has downgraded 26 stand-alone GARVEEs by one notch. The action affects 20 ratings secured solely by federal highway aid, issued by states, and 6 ratings secured solely by federal mass transit aid, issued by transit agencies. Most were downgraded to A2 from A1 with four downgraded to A1 from Aa3 and seven downgraded to A3 from A2. Alaska Railroad Corporation's A3 rating was affirmed at A3 because the rating, already lower than all other mass transit GARVEE ratings, already incorporates the risks reflected in the downgrade of the other programs and is therefore unchanged. All ratings were revised to stable. For a complete list of the ratings affected by this action, please see the end of the report.

**SUMMARY RATING RATIONALE**

The downgrade reflects a growing structural imbalance in the federal Highway Trust Fund (HTF), uncertain timing and magnitude of US general fund support, and increased risk of payment interruption or reduction. The HTF structural imbalance is the result of political unwillingness to provide a sustainable source of long-term funding for federal transportation investments. Fuel tax revenues have been stagnant in recent years and are projected to decrease in the future, while the demand for federal investment has not abated and will likely grow. The imbalance has led to a shortened authorization period that increases the frequency of reauthorization risk. Factors external to the HTF, such as federal government shutdown and Treasury cash management actions related to a debt ceiling impasse, have also increased event risk. The downgrades were limited to one notch in recognition of continued broad-based level of political support and a stable underlying economy. The balance of strengths and challenges for stand-alone GARVEEs is consistent with ratings in the single-A category.

The downgrades affect GARVEE bonds that are "stand-alone", meaning they are secured solely by anticipated federal aid grants and do not have additional state-source pledged revenues securing the bonds. No action has been taken on GARVEE bonds that are backed by additional revenues other than the federal grant revenues.

**STRENGTHS**

- Federal aid highway program supports infrastructure that is essential to the functioning of the national economy; federal transit aid supports critical regional infrastructure
- Long history of flow of federal funds to states and, to a lesser degree, mass transit agencies
- Considerable US general fund support in recent years that has led to flat to improving pledged revenues
- Strong leverage constraints and debt service coverage ratios for stand-alone highway GARVEEs; moderate leverage constraints and debt service coverage ratios for mass transit GARVEEs
- Strong management of cash flow and federal reimbursement process by states and transit agencies

**CHALLENGES**

- Large and growing structural imbalance in the Highway Trust Fund will require ongoing general fund support, which has become less reliable in light of federal budgetary pressure
- Trend of secular decline in gas taxes which fund about 70% of the federal aid program's current spending level
- Political unwillingness to identify sustainable dedicated revenue stream has led to shorter-duration transportation reauthorizations and has increased the frequency of reauthorization risk and GARVEEs' exposure to the political process
- Increased likelihood of disruption of federal payment process for programs that lack reserve funds or other

structural protections against liquidity events

#### AFFECTED ISSUERS

TO A1 FROM Aa3:

Alabama Federal Highway Finance Authority

Delaware Transportation Authority

District of Columbia (Series 2010A)

Georgia State Road and Tollway Authority (Reimbursement Revenue Bonds)

TO A2 FROM A1:

California Department of Transportation

District of Columbia (Series 2012)

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

Idaho Housing and Finance Association

Kentucky Asset Liability Commission

Maine Municipal Bond Bank

Montana Department of Transportation

Michigan (2009B)

New Hampshire

North Carolina

Oklahoma Department of Transportation

Rhode Island Economic Development Corporation

Washington

West Virginia Commissioner of Highways

TO A3 FROM A2:

Chicago Transit Authority

Michigan (2007)

New Jersey

New Jersey Transit Corporation (Senior)

New Jersey Transit Corporation (Subordinate)

Southeastern Pennsylvania Transportation Authority

Tri-County Metropolitan Transportation District, OR

AFFIRMED AT A3

Alaska Railroad Corporation

OUTLOOK

The outlook was revised to stable to reflect that the lower rating level incorporates risks related to the potential temporary delay or reduction in grants due to a shortfall this summer, the structural imbalance in the Highway Trust Fund, and reauthorization risk. The stable outlook incorporates our expectation that Congress will provide stop-gap funding this summer to prevent a shortfall in the Highway Trust Fund and maintain spending at or near current levels for the time being.

#### WHAT COULD CHANGE THE RATINGS UP

- A return to multiple consecutive multi-year reauthorizations
- The identification of a sustainable dedicated revenue source for the Highway Trust Fund
- Enhancements of individual transactions' legal protections including the addition of sufficient state-source revenues pledged to bonds

#### WHAT COULD CHANGE THE RATINGS DOWN

- A discontinuation or significant permanent reduction in the federal transportation grant program
- An extended temporary interruption or delay in grants
- 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 this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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