RATING ACTION COMMENTARY

Fitch Rates WMATA's Dedicated Capital Funding Bonds 'AA'; Outlook Negative

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Fitch Ratings - New York - 26 May 2020: Fitch Ratings has assigned a 'AA' rating on the Washington Metropolitan Area Transit Authority's (WMATA, or the authority) $545,000,000 dedicated revenue bonds, series 2020A. Proceeds will fund various safety and state of good repair capital projects. The bonds are expected to sell via negotiation on or about June 2.

Concurrently, Fitch has assigned an Issuer Default Rating (IDR) of 'AA-' on the authority and affirmed the 'AA-' rating on the authority's gross revenue transit bonds, series 2018, and removed the bonds from Rating Watch Negative.

Fitch has upgraded the rating on the series 2017A-1, 2017A-2 and series 2017B bonds to 'AA' from 'AA-' and removed the bonds from Rating Watch Negative. These bonds are backed by the lien on dedicated capital revenues established under the 2020 bond resolution in addition to the lien on gross transit revenues established under the 2003 gross revenue bond resolution. The series 2018 bonds and all other bonds issued under the 2003 gross revenue bond resolution on or after Nov. 15, 2018 do not have a lien on the dedicated capital revenues.

The Rating Outlook is Negative.

SECURITY

The dedicated revenue bonds are backed by a lien on the dedicated capital funding established under the 2020 bond resolution. The dedicated capital revenues are payable to the authority pursuant to statues enacted by the District of Columbia (the district), the Commonwealth of Virginia, and the State of Maryland (collectively, the states), subject to annual appropriation. The statutory dedicated capital funding revenue allocation is as follows: $178.5 million from the district payable from its general sales tax revenue, $167 million from Maryland payable from the Maryland Transportation Trust Fund (TTF), and $154.5 million from Virginia ($30 million of which is not available for debt service) payable from various regional taxes on transient accommodations, wholesale fuel purchases, real property transfers, and sales and use taxes.

The pledge of the dedicated capital funding revenues is subordinate to approximately $683 million of outstanding gross revenue transit bonds, series 2017AB. The series 2017AB bonds are backed by a pledge of the trust estate established pursuant to the 2003 gross revenue bond resolution, which includes all transit system operating revenues (fares, rents, etc.) and operating subsidies received from the states and participating local governments within the WMATA transit zone. The 2003 gross revenue bond resolution was amended prior to the issuance of

the authority's gross revenue transit bonds, series 2018 (outstanding in the principal amount of approximately $240 million) so that the series 2018 bonds and all other bonds issued under the 2003 gross revenue bond resolution on or after Nov. 15, 2018 do not have a lien on the dedicated capital funding revenues.

KEY RATING DRIVERS

Analytical Conclusion: The 'AA' rating on the authority's dedicated revenue bonds is based on a dedicated tax bond (DTB) analysis of the underlying revenue streams that support each state's dedicated capital funding commitment to the authority. Each state is allowed to proportionally reduce its dedicated capital funding contribution if another does not pay its full amount of dedicated funding. As such, the rating reflects a weak link approach to the dedicated tax analysis. Lastly, each state's dedicated capital funding contribution is subject to appropriation establishing a cap at one notch below the lowest of the states' IDRs. Fitch rates the IDRs of the district at 'AA+'/Stable; Maryland at 'AAA'/Stable; and Virginia at 'AAA'/Stable. Since the dedicated capital funding revenues are segregated from the authority's operations, Fitch's criteria allow for the rating on the dedicated revenue bonds to be above the authority's IDR. However, Fitch believes the flow of dedicated capital funding revenues to the authority could be vulnerable to impairment in a fiscal emergency, which limits the degree of notching above the authority's IDR. As such, the Negative Outlook on the dedicated revenue bonds reflects the Outlook assigned to the authority's IDR (see below for more information).

Rating Link to Authority IDR: Fitch views the security for the dedicated revenue bonds as linked to, but not capped by, the general creditworthiness of the authority. The authority was created by an interstate compact through legislation passed by the District of Columbia, the State of Maryland, the Commonwealth of Virginia and the U.S. Congress, the effect of which, in Fitch's opinion, is to grant the authority

sovereign-like powers and to make it ineligible for bankruptcy or other insolvency proceedings. The dedicated capital funding revenues are statutorily restricted for capital investment (specifically "state of good repair" projects, and not system expansion) or debt service. The dedicated capital funding revenues, including residual revenues available after the payment of debt service, are likewise statutorily prohibited from being used for authority operating expenses.

Stand-Alone DTB Analysis: The capital funding agreements entered into by each state and the authority allow the states to condition payment of the dedicated capital funding revenues on payment by the other states. If any one of the three states does not make its respective share of contributions, the other two states may (but are not required to) withhold a proportionate share of their dedicated capital funding revenues. As such, the rating on the bonds incorporates a weak link approach from a stand-alone analysis of each state's respective dedicated capital funding obligation. Fitch views Virginia's DTB structure as the weakest of the states' dedicated capital funding revenues. Virginia's dedicated capital funding revenues, which are legislatively supported by regional taxes on transient accommodations, wholesale fuel purchases, real property transfers, and sales and use taxes revenues, are essentially structured to match the state's annual capital funding commitment at the onset and demonstrate a high level of historical and expected volatility.

Link to State's Credit Quality: Each state's dedicated capital funding contributions are provided by annual legislative appropriations. As such, Fitch caps the rating on the dedicated revenue bonds at a level one notch below the lowest of the states' respective IDRs. Each state has legislative discretion over the revenues available to fund its dedicated capital funding contribution to the authority. The funding commitments are additive to each state's existing subsidies for the authority's operating and capital budgets and demonstrate the states' strong commitment to the transit system and its critical role supporting the mobility, health, and economic vitality of the region.

Strong ABT Protection: The bond resolution establishes an additional bonds test (ABT) that requires 400% coverage of maximum annual debt service (MADS) from historical pledged revenues. Leverage is quite low initially, which will temper near-term revenue risk associated with the coronavirus pandemic containment measures. Thereafter, Fitch expects the authority to carefully manage a ramp up in issuance to finance its $10.4 billion in eligible safety and state of good repair projects in its capital program through fiscal 2026.

IDR Analysis: The Negative Outlook on the authority's 'AA-' IDR is based on risks associated with the coronavirus and related containment measures, which have decimated the authority's ridership levels, resulting in increased risk to its financial profile and liquidity over the next one- to two-year period. The rating continues to reflect the authority's strong legal and regulatory framework resulting from its creation through an interstate compact, which grants it sovereign-like powers and exemption from all laws and orders of its signatories, with limited exceptions. The rating also reflects the authority's relatively low leverage despite an uptick in expected issuance, as it has mostly financed its capital investments on a pay-go basis historically. Fitch expects the ratio of net debt and other long-term liabilities to pledged gross revenues to remain comfortably within a range considered satisfactory for the 'AA-' rating. The authority's 'stronger' revenue defensibility assessment is underpinned by the financial support provided by highly rated participating jurisdictions, which are obligated to cover the operating and capital costs of the transit system from its legally available funds, subject to annual appropriation. The 'midrange' assessment of the authority's operating risk profiles reflects the authority's significant capital needs, identified at roughly $15 billion over 10 years, rapidly rising but still manageable pension costs, and constraints imposed by collective bargaining agreements and a labor framework featuring binding arbitration, which is tempered by a full legal control to reduce workforce size.

Asymmetric Risk Additive Considerations: There are no asymmetric additive risk factors applied in this rating determination.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--For the dedicated revenue bonds, a sustained level of low leverage that strengthens the resilience of the dedicated revenue bond structure.

--For the IDR, a sustained recovery in ridership and revenues due to easing of pandemic or adaptation strategies and/or federal or state action that convincingly stabilizes the authority's finances.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--For the dedicated revenue bonds, a decline in dedicated capital funding revenues by any of the states in excess of Fitch's scenario analysis.

--For the dedicated revenue bonds, a weakening in the overall credit profile of the authority, which may result from evidence of weakened support for the authority's operating and capital budget by the states and/or participating jurisdictions, a decline in liquidity, or a shift in Fitch's view of the mass transit system's essentiality to the regional economy, suggested by sustained declines in ridership in the aftermath of the public health crisis.

--For the IDR, a decline in liquidity to a range of 60 days cash or lower.

--For the IDR, a shift in Fitch's view of the mass transit system's essentiality to the regional economy, suggested by sustained declines in ridership in the aftermath of the public health crisis.

--For the IDR, evidence of weakened support for the authority's operating and capital budget by the states and/or participating jurisdictions.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT PROFILE

The WMATA was created in 1967 through an interstate compact or matching legislation passed by the district, Virginia, and Maryland and then ratified by the U.S. Congress. The authority is responsible for the development, financing, and operation of mass transit facilities, consisting of a rapid rail system (Metrorail), a bus transit system (Metrobus), and a paratransit service (MetroAccess) in the national capital area. The authority uniquely exists as an agency and instrumentality of the district, Virginia, and Maryland, each of which, along with the federal government, appoint two voting directors and two alternate directors to the authority board of directors. The authority's operating and capital budgets are primarily funded from a combination of operating revenues, mostly passenger fares, and subsidies received from the participating jurisdictions.

Current Developments

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity began only recently, most state and local government's fiscal and economic data do not reflect their impact. Material changes in revenues and expenditures are occurring across the country and may worsen as economic activity suffers and public health concerns continue. Fitch's ratings are forward-looking in nature; as such, Fitch will monitor developments in state and local governments as a result of the pandemic as they relate to severity and duration and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions to hit major economies in 1H20 at a speed and depth that is unprecedented since WWII. Sequential recovery begins from 3Q20 onward as the health crisis subsides after a short but severe global recession. GDP remains below its 4Q19 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report titled "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/site/re/10120570), published April 29, 2020 on www.fitchratings.com.

The authority is experiencing sharp declines in transit ridership and fare revenues common to many U.S. mass transit agencies as a result of shelter-in-place orders and other social distancing measures. Daily ridership reported as of May 12 reveals a 95% and 73% decline in rail and bus utilization, respectively, year over year. The authority forecasts a $221 million budget gap on the $1.94 billion operating budget for fiscal 2020 (June 30). The authority presented a revised budget plan for FY 2021 that projects a $438 million, or 53%, reduction in operating revenue based on the assumption ridership will not approach pre-pandemic levels until 4Q FY21.

The authority has instituted various cost reduction programs but it will largely rely on its CARES Act apportionment to address its budget gap.

The CARES Act designated $1.02 billion in funding to the authority and the two other regional transportation systems, with the authority's share at $876.8 million. The authority allocated $109.1 million of its CARES funding to local jurisdictions, which leaves the authority with approximately $767.7 million. The authority expects to receive its first installment of CARES funding next week.

Reported liquidity levels appear adequate at the present time supporting removal of the Rating Watch Negative. The authority reported $603 million of available liquidity as of May 8, which includes $350 million drawn from four lines of credit that expire May 27. The authority has closed on a $75 million replacement facility with Wells Fargo and it has signed term sheets and expects to close on the last three bank facilities next week. Fitch estimates the $603 million in current liquidity is roughly equivalent to 113 days cash on hand based on the adopted fiscal 2020 operating budget.

The authority is unique compared to other Fitch-rated U.S. transit agencies in that it is not explicitly dependent on dedicated tax revenues to fund its operating budget. Fare and other operating revenues fund 41% of the operating budget, with the remainder derived from operating subsidies from the highly rated states and local jurisdictions, pursuant to the WMATA compact. The subsidies are payable from any legally available funds of the entities and are payable to the authority on a quarterly basis. The next subsidy payment is due on July 1 in the amount of $292 million (an additional $104 million subsidy is due for capital on the same date). Additionally, the authority reports $397 million in reimbursable capital expenses paid from other sources that it can replenish from the proceeds of debt issuance. As for debt service, the upcoming July 1 principal and interest payment on the authority's outstanding gross revenue transit bonds was fully funded on April 1, as per the terms of the 2003 gross revenue bond resolution.

Operating flexibility is primarily evident in the authority's full legal control over its workforce spending, which was budgeted at $1.36 billion in fiscal 2020. The authority has legal authority to institute layoffs or furloughs but

it has not exercised either of these options to date. The authority released preliminary details of its recovery plan this week, outlining flexible options for ramping up service as each state initiates its respective reopening plans commencing May 15 in Maryland, June 8 for the district, and May 29 for the northern Virginia region.

Dedicated Tax Bond Profile

As noted, each state has adopted dedicated capital funding legislation and related funding agreements with the authority that allow the states to condition payment of the dedicated capital funding revenues on payment by the other states. In addition, various reporting and operating restrictions apply to the authority, including a 3% cap on the annual increase in the jurisdictional operating subsidy that could affect the receipt of other capital contributions that are not pledged to the payment of the dedicated revenue bonds. The dedicated capital funding revenues are non-reverting once appropriated and statutorily authorized exclusively for the authority's capital program and the payment of debt service (with the exception of $30 million from Virginia not available to pay debt service). Pursuant to the indenture, the revenues will be deposited into a restricted account of the authority and segregated from its transit operating revenues and the operating and capital subsidies it receives from the states and the participating jurisdictions.

The dedicated capital funding revenues are derived from various sources identified in each state's dedicated capital funding legislation. The district has agreed to fund $178.5 million annually from its general sales tax revenue, payable semiannually on Oct. 1 and April 1, once appropriated. The district's general sales tax revenues totaled $1.6 billion in fiscal 2019. Maryland's legislation states that the governor is required to budget and seek an appropriation annually of $167 million from revenues in the TTF established to support the Maryland Department of Transportation. The funds are to be remitted to the authority by the Washington Suburban Transit District on a quarterly basis. TTF revenues include a combination of fuel tax, motor vehicle titling tax, operating funds, motor fuel license

and registration fees, and corporate income taxes, among other sources, totaling $3.2 billion in fiscal 2019.

Virginia's legislation directs a combination of regional revenues to be paid into the state treasury and credited to a WMATA capital fund to be released to the authority on a monthly basis pending certification of various capital and financial audits of the authority. Virginia's WMATA capital fund is to be funded annually with local transportation tax revenues in the fixed amount of $27.12 million, a regional recordation fee estimated at $44.9 million (equal to $0.15 for each $100 of value of the related real property), a regional transient occupancy tax (TOT) estimated at $29.7 million (equal to 2% on the amount of the charge for any dwelling or lodging room or space), and a regional wholesale fuel tax estimated at $22.3 million (an amount equal to 1/12th of the increase in wholesale fuel taxes over fiscal 2018 receipts; the fuel tax is imposed on each gallon of fuel sold based on a rate established by the Commission of the Department of Motor Vehicles).

The regional taxes to be deposited into Virginias' WMATA capital fund are expected to narrowly cover Virginia's dedicated capital funding revenues to the authority ($124.5 million in unrestricted funds plus $30 million in restricted funds). As such, the structure is particularly exposed to declines in Virginia's regional tax revenues, as the obligation to make the dedicated capital funding revenue payment is limited to the amount held in Virginia's WMATA capital fund. Any deficiency in Virginia's full share of the dedicated capital funding revenue would entitle, but not require, the district and Maryland to proportionately reduce their contributions. Virginia is required to notify the authority if it determines at any time the amount held in its WMATA capital fund will not be sufficient to pay the contribution in full, and it will agree to meet with representatives from the authority, Maryland, and the district to determine an appropriate course of action, but there is no other legal recourse available to the authority to ensure full payment of the dedicated capital funding revenues from the other two states. Virginia has not notified the authority of an expected shortfall in its dedicated capital funding revenues to date.

DTB Growth Prospects

Given the legislative condition by which the states can proportionately reduce their dedicated capital funding commitment based on a payment reduction of another, Fitch's dedicated tax analysis is based on a "weak link" approach applied to the underlying revenue streams that support each state's respective dedicated capital funding revenues.

Fitch's 'a' assessment for revenue growth prospects is based on our view of Virginia's regional tax revenues, the components of which have registered 10-year CAGR ranging from 1.5% to 2.8% based on proxy revenue streams given the recent authorization of these taxes. In contrast, the district's general sales tax and Maryland TTF revenues have increased by a CAGR of 4.7% and 4.0%, respectively, over the same 10-year period.

Each state revenue stream benefits from strong underlying demographic and economic fundamentals that include large and diverse employment bases, highly educated labor force, and high income levels. Moreover, the presence of federal employees and federal government contractors, who have generally been identified as essential workers, lends some degree of economic stability in the midst of the ongoing coronavirus pandemic.

Nonetheless, Fitch expects revenue declines associated with coronavirus containment measures and public health risks, including the potential for a spike in infections, to result in revenue stresses that surpass historical performance, including declines from the Great Recession, and weigh on growth prospects over the next several years.

DTB Resilience

Fitch's 'aa' resilience assessment reflects the significant cushion and tolerance for pledged revenue decline based on the bond structure's current low leverage, which takes on an increased importance in our analysis given the current revenue environment, and expectations for a gradual increase in leverage to the 4x MADS ABT.

The authority estimates the debt service on the series 2020 bonds, with a 2045 final maturity, at roughly $40 million. Dedicated capital funding revenues of $470 million ($500 million total less the $30 million restricted contribution from Virginia) could decline by 91% before reaching 1.0x projected MADS coverage on the series 2020 bonds, or 75% assuming an increase in MADS to the 4.0x ABT level.

District general sales tax revenues and Maryland TTF revenues exhibited modest revenue volatility with the largest cumulative declines registering just 4.5% and 5.3%, respectively, dating back to fiscal 2005. Fitch's analysis of Virginia's regional taxes is based on a proxy analysis due to insufficient historical data, yielding a high historical stress of nearly 28% driven by large declines in recordation tax revenues from fiscal years 2007-2010 due to the Great Recession. Conservatively assuming MADS at the 4.0x ABT, the 75% coverage cushion would approximate 2.7x the worst historical stress based on the analysis of Virginia's regional tax revenues, which is consistent with an 'aa' resilience assessment.

However, the current public health crisis has precipitated an unprecedented level of economic contraction and an increased risk of sharp declines in various dedicated tax revenues that will likely exceed the historical experience that underpins the standard scenarios in Fitch's U.S. Public Finance Tax-Supported Rating Criteria for dedicated tax bonds. As such, Fitch's dedicated tax analysis reflects a more severe revenue stress incorporating annualized scenarios for U.S. retail discretionary spending, passenger car traffic declines, and lodging revenues that results in a 45% stress against the dedicated capital funding revenues. The resultant coverage of MADS on the series 2020 bonds remains strong at approximately 6.5x following the stress. Fitch believes the structure's coverage cushion and resilience are consistent with the 'aa' assessment, within the context of both a high historical revenue stress and heightened revenue risk due to the uncertain length and severity of the coronavirus pandemic on economic activity.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

WMATA has an ESG Relevance Score of 4 for Labor Relations & Practices due to its operation within a fairly rigid labor environment and pressure to fund rising fringe benefit costs for existing and retired employees, which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

RATING ACTIONS

ENTITY/DEBT	RATING		
Washington Metropolitan Area Transit Authority (DC) [General Government]	LT IDR	AA-	New Rating
• Washington Metropolitan Area Transit Authority (DC) /Issuer Default Rating - General Government/1 LT	LT	AA-	New Rating
• Washington Metropolitan Area Transit	LT	AA	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Washington Metropolitan Area Transit Authority	EU Endorsed

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