Washington Metropolitan Area Transit Authority (WMATA)

Issuer: Washington Metropolitan Area Transit Authority		
Assigned	**Rating**	**Outlook**
Second Lien Dedicated Revenue Bonds, Series 2023A (Sustainability Bonds – Climate Bond Certified)	AA	Stable
Affirmed	**Rating**	**Outlook**
Dedicated Revenue Bonds	AA+	Stable

Methodology:

U.S. State Annual Appropriation Obligation Rating Methodology

ESG Global Rating Methodology

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Rating Summary: The long-term rating on Washington Metropolitan Area Transit Authority's (the "Authority" or "WMATA") senior lien Dedicated Revenue Bonds outstanding, and Second Lien Dedicated Revenue Bonds to be issued, reflects the strong credit fundamentals of the signatories (District of Columbia, State of Maryland, and the Commonwealth of Virginia), the critical importance of mass transit to metropolitan Washington D.C., a long history of participating jurisdictions providing operating and capital support for mass transit operations, and the annual appropriation nature of the pledged revenues backing timely debt repayment. A detailed description of the Senior Lien Dedicated Revenue Bonds and its salient credit characteristics, many of which also describe those of the Second Lien Dedicated Revenue Bonds, can be found the report dated January 17, 2023.

The long-term rating is based on an evaluation of factors discussed in KBRA's U.S. State Annual Appropriation Obligation Rating Methodology, with further rating distinction made for the subordinated nature of the Authority's recently adopted Second Lien, which incorporates a more permissive 1.50x additional bonds test ("ABT"). The Maryland and Virginia fiscal years begin on July 1, while the District of Columbia's fiscal year begins on October 1. This allows ample time for any delays in budget adoption prior to the January 15 interest payment and July 15 interest and principal payment on the Bonds.

The Authority is issuing its Second Lien Dedicated Revenue Bonds, Series 2023A (the "Bonds"), representing the first issuance under the WMATA Second Lien Dedicated Capital Funding Bond Resolution ("Bond Resolution"). The Bonds are secured by and solely payable from the Second Lien Trust Estate, which consists primarily of a second lien pledge of funds received from the signatories, pursuant to Dedicated Capital Fund Acts that each has adopted. The dedicated revenues are fixed amounts, subject to annual appropriation, that are used for designated capital projects and related debt service obligations and may not be used for operating needs. The funds are non-lapsing and non-reverting, and KBRA believes there is a high likelihood the signatories will continue to make the annual appropriations, as mass transit plays a pivotal role in the region.

The Authority's debt obligations are supported by Dedicated Capital Funding Revenues ("dedicated revenues") totaling approximately $500 million annually, to be used exclusively for capital projects and debt service (less $30 million from the State of Virginia, which cannot be utilized for debt service), subject to appropriations by the applicable governing body. The Authority substantially exhausted its senior lien borrowing capacity under the 4.0x additional bonds test following its most recent issuance in January 2023, and recently adopted its supplemental Bond Resolution in an effort to provide partial funding for the Authority's six-year (2024-2029) Capital Improvement Program ("CIP"). The Series 2023A Second Lien Dedicated Revenue Bonds are supported by the aforementioned dedicated revenues, on a Second Lien basis and subordinate to approximately $1.69 billion of prior lien obligations outstanding. Projections indicate that following the payment of Senior Lien debt service and assuming a 5% cost of capital, the Authority would have approximately $3.19 billion in second lien borrowing capacity under the 1.50x second lien additional bonds test outlined in the Bond Resolution.

Proceeds from the sale of the Bonds will fund a portion of WMATA's $14.39 billion 2024-2029 Capital Improvement Program. The current issue represents the first issuance under WMATA's Second Lien Dedicated Capital Funding resolution. While a debt service reserve will not be funded, WMATA officials plan to provide enhanced support for bond repayment by establishing advance retention of debt service equal to six months of accrued debt service. The Debt Service Fund will be maintained by the Bond Trustee.

WMATA is the third-largest heavy rail transit system and sixth largest bus network in the U.S., serving the Washington, D.C. metropolitan area and a population of approximately 6.2 million. Metrorail components include 128 miles of track, six rail lines, 98 stations, and 1,278 railcars. Metrobus operates with a fleet of 1,588 buses. Aggregate ridership totaled 142,217 for FY2022, representing less than half of pre-pandemic levels.

The Washington Metropolitan Area Transit Zone service area ("service area") includes the District of Columbia together with 11 other participating jurisdictions including four Maryland counties (Montgomery and Prince George's together with portions of Charles and Anne Arundel), three Northern Virginia counties (Arlington, Fairfax and Loudoun) and five Northern Virginia independent cities (Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park) (herein referred to as the "participating jurisdictions"). The participating jurisdictions make up the core of the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan statistical area ("the MSA") which is the sixth largest in the country by population. The region is characterized by exceptional economic strength and stability as the seat of the Federal Government and related activity. The metropolitan area is one of the nation's wealthiest with per capita personal income over 30% above the national median. Some of the dedicated funding sources provided to WMATA are generated from economically sensitive revenues and have shown declines in collections due to COVID-19. KBRA will closely monitor the magnitude of such disruption to these revenue sources and the overall recovery in the participating jurisdictions.

WMATA's proposed FY2024-2029 $14.385 billion CIP identifies anticipated funding from federal, state, and local sources to support core safety and system preservation needs. The FY 2024 and FY 2025 capital budgets respectively are $2.39 billion and $2.67 billion. Over the past four years, WMATA has invested more than $8.4 billion in capital projects. The dedicated revenue capital funding from the three signatories in an amount of up to $500 million annually is a crucial element of the Plan.

The Stable Outlook reflects KBRA's expectation that the signatories will annually appropriate dedicated capital funding revenues in amounts as projected and debt service coverage margins will remain ample.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- The jurisdictions have an uninterrupted 47-year history of payment of their annual commitments.
- Strong credit characteristics of signatory jurisdictions supports appropriation funding mechanism.
- Essentiality of mass transit to metropolitan Washington D.C. area and established history of operating and capital support by these jurisdictions.
- Substantial coverage of debt service requirements.

Credit Challenges

- Dedicated revenue sources may be adversely affected by economic cycles and exogenous events.
- Signatories are allowed to proportionally reduce their dedicated capital funding contribution if another does not pay the full amount of their obligations.

Rating Sensitivities

▪ Improved credit position of signatory jurisdictions.	**+**
▪ Weakened credit position of one or more of the signatories. ▪ Failure of one or more signatories to make its committed appropriation in full.	**-**

Key Highlights

Issuer: Washington Metropolitan Area Transit Authority (WMATA)	
WMATA Pledged Revenues (2022)	$470,000,000
Senior Lien MADS (2025)	$117,034,844
Senior Lien ABT	4.0x
Senior Lien MADS Coverage (2022)	4.02x
Estimated Second Lien Borrowing Capacity[1]	$3,188,407,226
Estimated All-in MADS (2053)	$313,333,333
Second Lien ABT	1.50x
MADS Coverage (2053)	1.50x

[1] *Estimated, based on 5% interest rate*

Source: Frasca & Associates, LLC

A more detailed review of each rating determinant and KBRA's bankruptcy assessment can be found in the report dated January 17, 2023.

Bankruptcy Assessment

KBRA's bankruptcy assessment for this credit remains unchanged from the May 19, 2021 Rating Report.

Legal Environment – Second Lien

The Series 2023A Second Lien Bonds, together with all other bonds to be issued under the Second Lien Master Resolution (the "Second Lien Obligations"), are special, limited obligations of the Authority payable solely from and secured solely by the Second Lien Trust Estate, subject to the terms and conditions of the Second Lien Resolution. No other Second Lien Obligations are presently outstanding. The Series 2023A Second Lien Bonds are secured and payable on a basis that is subordinated to the prior pledge of the Dedicated Capital Funding Revenues for payment of Senior Lien Obligations issued and outstanding from time to time under the Senior Lien Resolution. Senior Lien Obligations are currently outstanding in the aggregate principal amount of $1,690,185,000. The Second Lien Trust Estate consists primarily of a second lien pledge of the Dedicated Capital Funding Revenues which are derived from statutorily defined payments from the District of Columbia (the "District"), the State of Maryland ("Maryland"), and the Commonwealth of Virginia (the "Commonwealth" and, together with the District and Maryland, the "States"). The payment of the Dedicated Capital Funding Revenues by each of the States is subject to appropriation and allocation of funds by the States as well as compliance by the Authority with certain requirements set out in the Dedicated Revenue Statutes and Dedicated Funding Grant Agreements. Detail on the Legal Environment for the Senior Lien can be found in the report dated January 17, 2023.

Appropriation Mechanism

Under District of Columbia, Maryland, and Virginia statutes adopted in 2018, the Mayor/Governor is required to include an appropriation in the annual budget of a certain amount for capital costs of the Authority. For fiscal year 2022, the District of Columbia's obligation was $178.5 million, remitted semiannually. Maryland contributed $167 million in quarterly installments, while Virginia's obligation was approximately $154 million, paid monthly, of which $31.9 million was not available for debt service. WMATA has covenanted in the Resolution to use reasonable efforts to cause payment of the dedicated revenues from the participating jurisdictions. In the event of a State's failure to make a timely payment, WMATA could terminate capital projects within the boundary of the non-paying State.

The Statutes and the related funding agreements allow the States to condition payment of the dedicated revenues on payment by the other States. If any one of the three States does not make its share of contributions, the other two states may, but are not required to, withhold a proportionate share of their dedicated revenues.

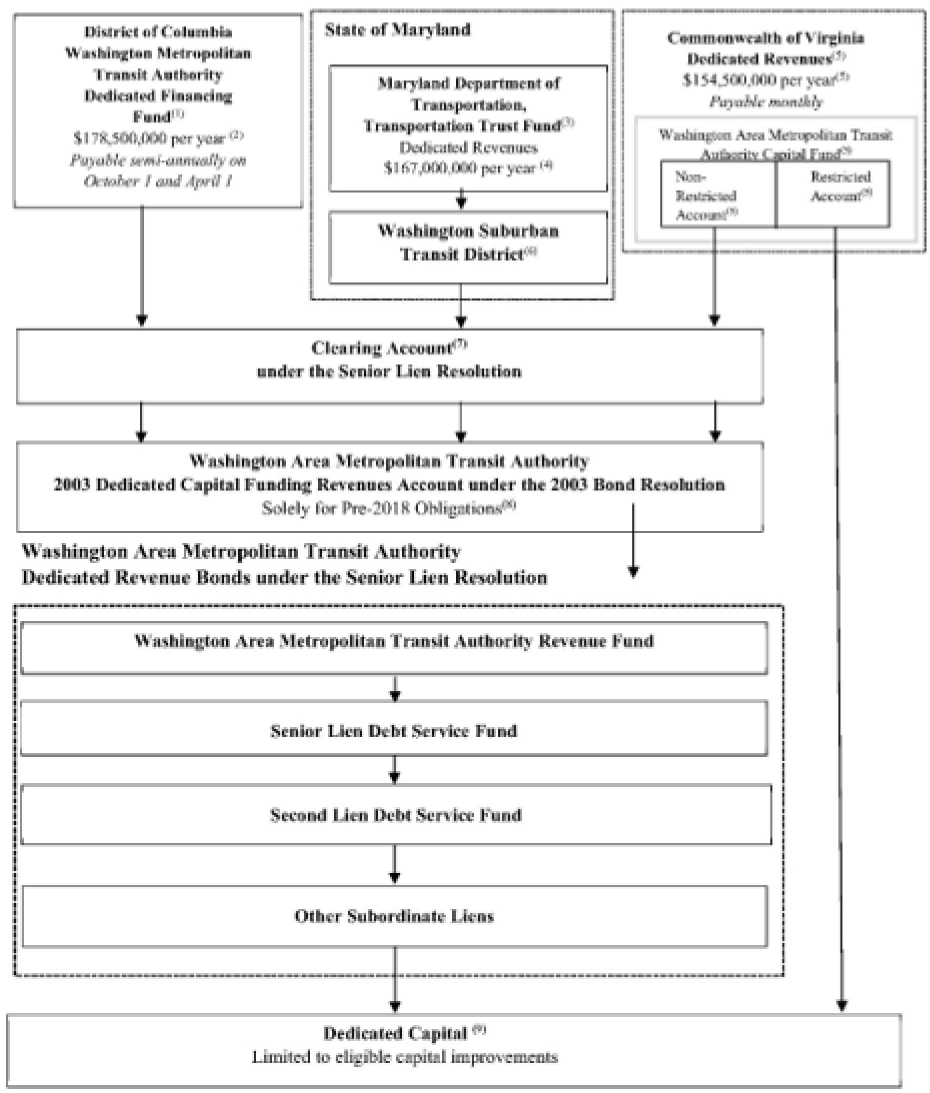
Flow of Funds

The Dedicated Capital Funding Revenues are the principal source of the Second Lien Trust Estate. Each of the States has been directed by the Authority to pay their respective Dedicated Capital Funding Revenues directly to the Clearing Account Agent for deposit into a Clearing Account established in the name of the Authority and held uninvested and administered by the Clearing Account Agent. The Clearing Account is not part of the Second Lien Trust Estate established by the Second Lien Master Resolution. So long as the Pre-2018 Bonds are outstanding, the Clearing Account Agent shall be unconditionally obligated to pay over to the Trustee for the Pre-2018 Bonds (the "2003 Trustee") all Dedicated Capital

Funding Revenues as soon as practicable following the receipt thereof, but in no event later than the morning of the Business Day immediately succeeding each date of receipt of Dedicated Capital Funding Revenues by the Clearing Account Agent. In accordance with the 2003 Bond Resolution, all Dedicated Capital Funding Revenues, as soon as practicable after the receipt thereof, are to be deposited by the 2003 Trustee in an account held and administrated by the 2003 Trustee (the "2003 Dedicated Capital Funding Revenues Account") established in the revenue fund (the "2003 Revenue Fund") established under the 2003 Bond Resolution.

The Authority is required by the 2003 Bond Resolution to direct the 2003 Trustee, on the Business Day next succeeding each deposit of Dedicated Capital Funding Revenues into the 2003 Dedicated Capital Funding Revenues Account, to transfer all Dedicated Capital Funding Revenues on deposit in the 2003 Dedicated Capital Funding Revenues Account to the Senior Trustee, and such amounts so transferred shall be free and clear of the pledge created by the 2003 Bond Resolution; provided, whenever the amount paid out of the gross proceeds account (the "2003 Gross Proceeds Account") established in the 2003 Revenue Fund with respect to the Pre-2018 Bonds is less than the amount which should have been transferred (i.e., accrued debt service on the Pre-2018 Bonds on a quarterly basis), then an amount equal to such deficiency shall be held in the 2003 Dedicated Capital Funding Revenues Account and applied in a timely manner to the payment when due of the Pre-2018 Bonds. Should such deficiency be made up from other sources, or such Pre-2018 Bonds be otherwise paid, then the amount so held may be transferred to the Dedicated Capital Reserve Fund.

Dedicated Revenue Bonds Sources and Flow of Funds



When the Pre-2018 Bonds are no longer outstanding, the Clearing Account Agent will transfer the Dedicated Capital Funding Revenues from the Clearing Account to the Revenue Fund as soon as practicable after the receipt thereof. Prior to the retirement of the Pre-2018 Bonds in accordance with their terms, the Pre-2018 Bonds shall have a first right of payment from the Clearing Account and the investment income thereon, if any, in accordance with terms of the 2003 Bond Resolution. So long as the Pre-2018 Bonds are outstanding in accordance with their terms, none of the Series 2023A Second Lien Bonds nor the Trustee shall have any lien on or right to payment from the Clearing Account or any funds contained in the Clearing Account or any investment income thereon, if any; on and after the date the Pre-2018 Bonds are no longer outstanding in accordance with their terms, the Clearing Account shall automatically and without further act become subject to the lien of the Second Lien Resolution.

The Trustee shall deposit all Dedicated Capital Funding Revenues as soon as practicable after receipt thereof, whether from the 2003 Trustee or from the Clearing Account Agent, into the Revenue Fund established under the Senior Lien Resolution.

Debt Service Reserve Fund
There is no reserve requirement for the Series 2023A Bonds. However, bondholders benefit from the Authority's advance retention of debt service equal to six months of accrued debt service.

Additional Bonds Test

Senior Lien
The additional bonds test requires a certificate of an Authorized Officer certifying that Dedicated Capital Funding Revenues for any 1) 12 consecutive months out of the last 18 months immediately preceding the issuance of the Bonds, must equal at least 400% of the sum of (a) maximum annual debt service (MADS), including the Bonds being issued for the period beginning with the fiscal year following issuance and ending with the fiscal year which includes the latest maturity or payment date of any outstanding obligations plus (b) MADS on any outstanding Pre-2018 Bonds issued under the 2003 Bond Resolution ending with the fiscal year which includes the latest maturity or payment date of any outstanding Pre-2018 Bonds; provided, however, that for the purpose of the foregoing clause (b), there shall be excluded from the calculation any debt service on the Pre-2018 Bonds to the extent that Gross Revenues as defined and described in the 2003 Resolution were sufficient to pay debt service on Pre-2018 Bonds during such 12-month period.

Second Lien
The Second Lien additional bonds test requires a certificate of an Authorized Officer certifying that Dedicated Capital Funding Revenues for any 1) 12 consecutive months out of the last 18 months immediately preceding the issuance of the Bonds, must equal at least 150% of the sum of (a) maximum annual debt service (MADS), including the Bonds being issued for the period beginning with the fiscal year following issuance and ending with the fiscal year which includes the latest maturity or payment date of any outstanding obligations plus (b) MADS on any outstanding Pre-2018 Bonds issued under the 2003 Bond Resolution ending with the fiscal year which includes the latest maturity or payment date of any outstanding Pre-2018 Bonds; provided, however, that for the purpose of the foregoing clause (b), there shall be excluded from the calculation any debt service on the Pre-2018 Bonds to the extent that Gross Revenues as defined and described in the 2003 Resolution were sufficient to pay debt service on Pre-2018 Bonds during such 12-month period.

ESG Management
KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

KBRA's assessment of ESG Management can be found in the report dated January 17, 2023.