# Washington Metropolitan Area Transit Authority (WMATA)

| Issuer: Washington Metropolitan Area Transit Authority | | |
|---|---|---|
| **Assigned** | **Rating** | **Outlook** |
| Dedicated Revenue Bonds, Series 2020A | AA+ | Stable |

**Methodology:**

U.S. State Annual Appropriation Obligation Rating Methodology

U.S. State General Obligation Rating Methodology

U.S. Local Government GO Methodology

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**Rating Summary:** The Washington Metropolitan Area Transit Authority (the "Authority" or "WMATA") is issuing approximately $545 million of Dedicated Revenue Bonds, Series 2020A. The Bond offering represents the initial issuance of a new WMATA security. The Bonds are secured by and solely payable from Dedicated Capital Funding Revenues ("dedicated revenues"), which are funds received from the signatories (District of Columbia, State of Maryland, and the Commonwealth of Virginia, 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. The funds are non-lapsing and non-reverting, and KBRA believes there is a high likelihood the signatories will make the annual appropriations, as mass transit plays a pivotal role in the region.

The Bonds are largely insulated from Authority operations and WMATA's Gross Transit Revenue credit. While outstanding Series 2017AB Gross Transit Revenue Bonds hold a prior lien on dedicated revenues, this Series is also secured by the Authority's gross revenue pledge, KBRA expects Series 2017AB debt service requirements to be paid exclusively from gross revenues. The Authority does not have the option of issuing additional prior lien bonds which pledge the Dedicated Capital Fund Revenues.

KBRA has assigned a AA+ rating and Stable Outlook to the Series 2020A Bonds reflecting the strong credit fundamentals of the signatories, the critical importance of mass transit to metropolitan Washington D.C., and a long history of participating jurisdictions providing operating and capital support for mass transit operations. 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 Series 2020A Bonds. Initial debt service coverage is more than 12.0x, and a 4.0x maximum annual debt service (MADS) additional bond test restricts overleveraging of the pledged revenue source. Under the statutes and related funding agreements, a signatory may, but is not required to proportionally reduce the amount of its payment as a response to another signatory reducing its share of contributions.

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. All dedicated revenues can only be used for debt repayment or funding for approved capital projects. Therefore, there is no reliance on this source for operating needs.

WMATA's service area, with a population of 6.25 million as of July 1, 2018, ranks sixth among U.S. MSAs and has exhibited strong growth since 2010. 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. As the COVID-19 pandemic crisis continues to unfold, KBRA expects the disruptions to the participating jurisdictions' economy will be very significant. Some of the dedicated funding sources provided to WMATA are generated from economically sensitive revenues. KBRA will closely monitor the magnitude of such disruption to these revenue sources and the overall recovery in the participating jurisdictions.

WMATA is the third-largest heavy rail transit system and sixth largest bus network in the U.S. Metrorail components include 118 miles of track, six rail lines, 91 stations, and 1,144 railcars. Metrobus provides 10,687 stops with a fleet of 1,648 buses. WMATA's proposed FY2021-2026 $10.4 billion capital improvement program identifies anticipated funding from federal, state and local sources to support core safety and system preservation needs. The Authority has also developed the "Keeping Metro Safe, Reliable & Affordable" Plan which was adopted as the Authority's Strategic Plan by the Board of Directors on March 28, 2019, and outlines $15.0 billion in capital projects over the next 10 years, requiring approximately $1.5 billion in average annual capital investments in order to keep the Transit System safe and reliable. The additional 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 fund revenues in amounts as projected and debt service coverage margins will remain ample.

## Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID-19 virus. Please refer to KBRA's ongoing research on the topic **here** for more information.

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

Credit Positives

- Strong credit standing 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 and restrictive additional bonds test.

Credit Challenges

- Assigned rating is informed by signatory jurisdiction credit standing that may be adversely affected by COVID-19 pandemic economic and financial impacts, which are presently unquantifiable.

## Rating Sensitivities

| | |
|---|---|
| • Improved credit position of signatory jurisdictions. | + |
| • Weakened credit position of one or more of the signatories.<br>• Failure of one or more signatories to make committed appropriation in full. | - |

## ESG Considerations

When relevant to credit, ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. Among the ESG factors that have impact on this rating analysis are:

- Discussions in RD 1 and 2 reflect Governance Factors. KBRA considered WMATA and participating jurisdictions' overall management and policy practices, budgetary planning and control, and long-term planning.
- Discussions in RD 4 reflect Social Factors. KBRA examined participating jurisdictions' trends in population, income levels, poverty, employment trends, GSP, and the potential impact of the COVID-19 pandemic.

More information on ESG Considerations for the Public Finance sector can be found **here**.

| Rating Highlights | |
|---|---|
| **WMATA Service Area** | Washington, D.C. Metropolitan Area |
| **WMATA Ridership** | 982,000 average weekday rides |
| **Security Features** | Gross pledge of Dedicated Capital Funding Revenues from D.C., Maryland and Virginia<br>Statutory authorization for WMATA capital purposes and debt only<br>Third-party intercept of Dedicated Capital Funding Revenues<br>States' payment of Dedicated Capital Funding Revenues conditioned on funding reciprocity by other States |
| **Revenues** | $178.5 million per year general retail sales tax remitted semiannually, grown at 3% annually, starting 2/14/2020<br>$167 million per year from capital program revenues in the MD Transportation Trust Fund, revenues remitted quarterly, starting 9/26/2019<br>$154.5 million per year from various taxes and fees, remitted monthly, including $30 million of capital funds not available for debt service, starting 5/1/2019 |
| **ABT** | 4.0x MADS historical test (12 consecutive months) |
| **Par Amount*** | $545,000,000 |
| **Structure*** | 2023-2045 |

*Source: WMATA Preliminary Official Statement*
**Estimated*

| Rating Determinants (RD) | |
|---|---|
| 1. Legal Framework | AAA |
| 2. Management Structure, Budgeting Practices and Policies | AA+ |
| 3. Debt and Additional Continuing Obligations | AA |
| 4. Financial Performance and Liquidity Position | AA+ |
| 5. State Resource Base | AA+ |

## RD 1: Legal Framework

The Series 2020A Bonds are special obligations of the Washington Metropolitan Area Transit Authority ("WMATA" or the "Authority") and are being issued pursuant to the Dedicated Revenue Bond Resolution ("Resolution") dated April 23, 2020. The Bonds are payable from and secured solely by the trust estate", which consists primarily of Dedicated Capital Funding Revenues derived from statutorily defined payments from the District of Columbia (the "District"), the State of Maryland ("Maryland") and the Commonwealth of Virginia (the "Commonwealth"), (collectively, the "States"). In 2018, each of the States passed legislation to direct Dedicated Capital Funding Revenues ("dedicated revenues") totaling in the aggregate approximately $500 million annually to the Authority, exclusively for capital projects and debt service, subject to appropriations by the applicable governing body, to fund the Authority's capital programs and purposes. The payment of the dedicated revenues 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 entered into by the three participating entities.

Under the Authority's 2003 Bond Resolution, the Dedicated Capital Funding Revenues are pledged to the payment of certain Pre-2018 Bonds (Series 2017A and Series 2017B Bonds) outstanding in the combined principal amount of approximately $694 million and the pledge of the Dedicated Capital Funding Revenues created by the Resolution is subordinate in all respects to that pledge created by the 2003 Bond Resolution. WMATA cannot issue any additional bonds secured by dedicated revenues under prior Resolutions. The expectation is that the Series 2017AB Bonds will be paid from pledged gross revenues and no dedicated revenues will be needed for their repayment. If the Series 2017AB Bonds are refunded, the prior lien is released.

### 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 2020, the District of Columbia's obligation is $178.5 million, remitted semiannually This obligation escalates at a 3% compound annual growth rate ("CAGR"). Maryland is contributing $167 million in quarterly installments, while Virginia's obligation is $154.5 million paid monthly. 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 withhold a proportionate share of their Dedicated Revenues.

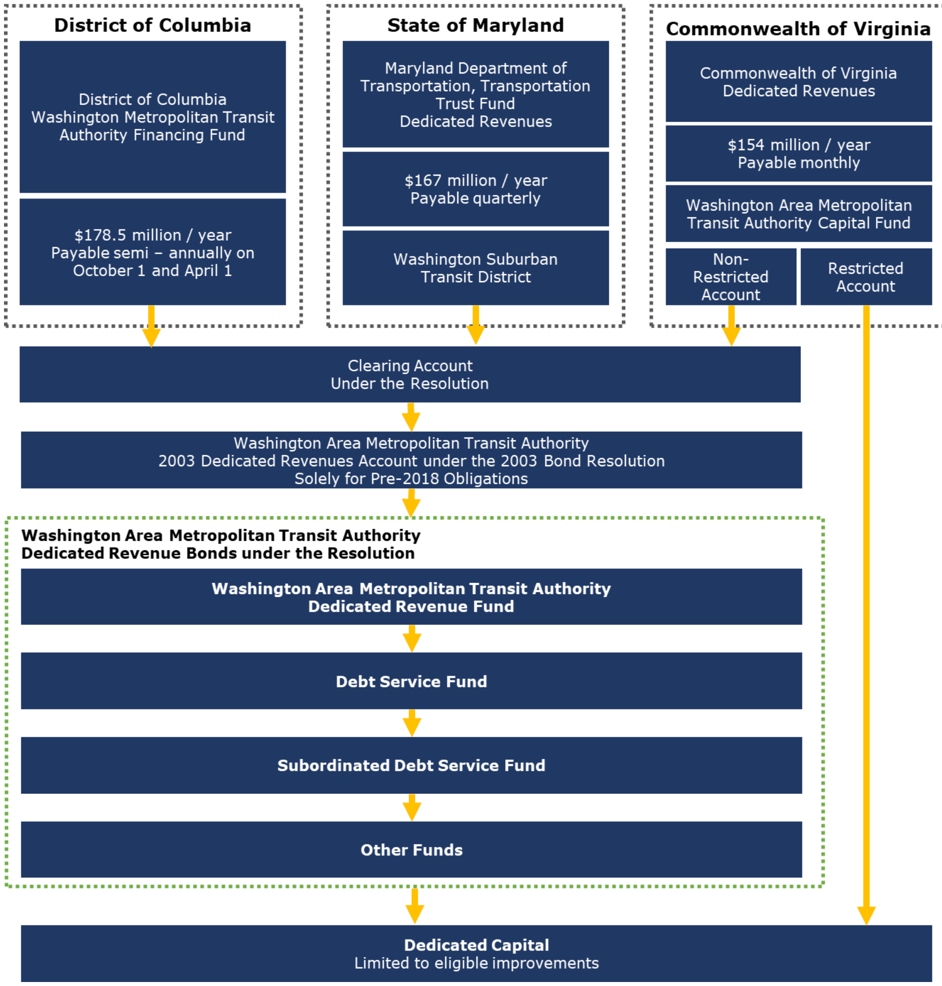
### Flow of Funds

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 held and administered by the Clearing Account Agent. The Clearing Account is not part of the Trust Estate established by the Resolution. As long as the Pre-2018 Bonds are outstanding, the Clearing Account Agent is obligated to pay over to the Trustee for the Pre-2018 Bonds all dedicated revenues, which are deposited by the 2003 Bonds Trustee into a Dedicated Capital Funding Revenues Account held by the 2003 Trustee. In the event there are insufficient gross revenues (farebox and related revenues) under the 2003 Resolution to meet Pre-2018 Bond debt service requirements, the deficiency is offset with Dedicated Revenue Account funds. The dedicated revenues then flow to the 2020 Bonds Trustee for deposit into the Revenue Fund.

While the Pre-2018 Bonds are outstanding, none of the Series 2020A Bonds nor the 2020 Bonds Trustee shall have any lien on the Clearing Account, or any funds contained in the Clearing Account including any investment income. On and after the date the Pre-2018 Bonds are no longer outstanding; the Clearing Account shall automatically become subject to the lien of the Resolution. 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 2020 Bond Trustee for deposit into Revenue Fund as soon as practicable after receipt. Such amounts will be applied in monthly deposits as follows:

**Figure 1**

**Dedicated Revenue Bonds Sources Flow of Funds**




## Debt Service Reserve Fund

There is no reserve requirement for the Series 2020A Bonds. However, bondholders benefit from the Authority's advance retention of debt service equal to six months of accrued debt service.

## Additional Bonds Test

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.

KBRA KROLL BOND RATING AGENCY

**Figure 2**

| WMATA Dedicated Revenue Bonds Pro Forma Debt Service ($ in 000) | | | | | | | | | | | Debt Service at Max Capacity ($ in 000) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Debt Service | | | Contributions | | | | | Debt Service Coverage | | | | |
| Fiscal Year | Series 2017 A&B DS | Series 2020 Pro Forma DS | Total Pro Forma DS | DC Cont. | Maryland Cont. | Virginia Cont. (for DS) | Virginia Cont. (not for DS) | Total Contribution for DS | 2017 A&B and 2020 Bonds | Series 2020 Only | ABT 4x DS | 4x ABT DSCR | Additional Capacity* |
| 2020 | - | - | - | $178,500 | $167,000 | $124,500 | $30,000 | $470,000 | - | - | - | - | - |
| 2021 | 54,328 | - | 54,328 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 8.65x | - | 117,521 | 4.00x | 63,194 |
| 2022 | 54,307 | - | 54,307 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 8.65x | - | 117,521 | 4.00x | 63,215 |
| 2023 | 54,287 | 13,625 | 67,912 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.92x | 34.50x | 117,521 | 4.00x | 49,609 |
| 2024 | 54,276 | 39,871 | 94,148 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 4.99x | 11.79x | 117,521 | 4.00x | 23,373 |
| 2025 | 54,256 | 39,873 | 94,129 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 4.99x | 11.79x | 117,521 | 4.00x | 23,392 |
| 2026 | 54,244 | 39,875 | 94,119 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 4.99x | 11.79x | 117,521 | 4.00x | 23,403 |
| 2027 | 54,226 | 39,871 | 94,097 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 4.99x | 11.79x | 117,521 | 4.00x | 23,424 |
| 2028 | 54,210 | 39,874 | 94,084 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,437 |
| 2029 | 54,186 | 39,873 | 94,060 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,462 |
| 2030 | 54,172 | 39,871 | 94,043 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,479 |
| 2031 | 54,157 | 39,870 | 94,027 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,494 |
| 2032 | 54,139 | 39,873 | 94,011 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,510 |
| 2033 | 54,142 | 39,872 | 94,014 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,508 |
| 2034 | 54,106 | 39,871 | 93,977 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,544 |
| 2035 | 54,050 | 39,871 | 93,921 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 5.00x | 11.79x | 117,521 | 4.00x | 23,600 |
| 2036 | 35,522 | 39,871 | 75,393 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,129 |
| 2037 | 35,520 | 39,871 | 75,391 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,131 |
| 2038 | 35,523 | 39,874 | 75,397 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,124 |
| 2039 | 35,519 | 39,872 | 75,391 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,130 |
| 2040 | 35,519 | 39,871 | 75,391 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,131 |
| 2041 | 35,520 | 39,873 | 75,393 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,128 |
| 2042 | 35,522 | 39,870 | 75,392 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,129 |
| 2043 | 35,521 | 39,872 | 75,393 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 6.23x | 11.79x | 117,521 | 4.00x | 42,128 |
| 2044 | - | 39,870 | 39,870 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 11.79x | 11.79x | 117,521 | 4.00x | 77,651 |
| 2045 | - | 39,870 | 39,870 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 11.79x | 11.79x | 117,521 | 4.00x | 77,651 |
| 2046 | - | 39,873 | 39,873 | 178,500 | 167,000 | 124,500 | 30,000 | 470,000 | 11.79x | 11.79x | 117,521 | 4.00x | 77,649 |

*Source: WMATA*
*Includes DS of the 2017 Bonds

## Bankruptcy Assessment

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, (i) qualify under the definition of "municipality" in the Bankruptcy Code, and must also (ii) be specifically authorized to file a bankruptcy petition by the State in which it is located. KBRA has consulted outside counsel and it is KBRA's understanding that the Authority is an agency and instrumentality of each of the District of Columbia (the "District"), the State of Maryland, and the Commonwealth of Virginia (collectively, the "States"). As an agency and instrumentality of the States, it meets the definition of a municipality in the Bankruptcy Code. However, the Bankruptcy Code specifically and expressly excludes agencies and instrumentalities of the District from the definition of municipality.

As to authorization, neither Maryland nor Virginia currently permit their municipalities to file for protection under the U.S. Bankruptcy Code, and Federal law does not permit the District Columbia or its constituent governmental entities to file for Chapter 9 relief. Given that the Authority (a) is an agency and instrumentality of each State and (b) operates under an interstate compact among the States and the District (the "Compact"), it is likely that the District (assuming legislative authority to file Chapter 9 not presently conferred by Congress) and the States would have to collectively authorize a filing by the Authority. However, it is unclear whether the States or Congress may adopt future laws that could permit the District and its constituent municipal entities such as the Authority to file for bankruptcy relief. The District, notably, was under the supervision of a financial control board in the 1990s. If, among other things, the District fails to make payments to any entity under an interstate compact to which the District is a signatory, including to the Authority under the Compact, that control board could be reconstituted and resume its full statutory powers over the District. Such powers could be expanded by Congress to include a bankruptcy regime for the District or its constituent instrumentalities (such as the Authority) similar to that established in 2016 for Puerto Rico and its instrumentalities under the PROMESA statute.

Chapter 9 provides for post-petition recognition of (i) a security interest represented by a pledge of specific special tax revenues or of municipal enterprise revenues (referred to as a lien on "special revenues") and also (ii) a statutory lien on revenues pledged for government obligations. Such special revenues and statutory liens continue to apply to revenues acquired by a local government entity during a Chapter 9 case, and will survive the conclusion of the Chapter 9 proceeding. However, other consensual pledges and liens arising by indenture, ordinance, resolution or similar document, except to the extent they cover proceeds of collateral pledged prior to bankruptcy, are generally all cut off by Section 552 of the Bankruptcy Code as of the petition date.

Here, the sources of revenue pledged to pay the Bonds consist of all right, title and interest of the Authority in: (1) all Dedicated Capital Funding Revenues received by the Authority from the District and the States; (2) the proceeds of the sale of the Bonds; (3) all Funds, Accounts and Subaccounts established by the Resolution (other than the Clearing

Account), except to the extent otherwise provided in the Resolution) including the investments, if any, thereof; and (4) all funds, moneys and securities and any and all other rights and interests in property, from time to time, pledged as additional security for the Bonds under the terms of the Resolution or as provided by any Supplemental Resolution to the Resolution.

KBRA believes, after consultation with outside counsel, that because (i) the funds pledged to pay the Bonds are not from a separate, dedicated and restricted source of revenues that meets one of the definitions of "special revenues" under Chapter 9, and (ii) there is no statutory lien imposed on the funds pledged to pay the Bonds, any holder of the Bonds would likely be treated as an unsecured creditor in a Chapter 9 bankruptcy proceeding of the Authority.

## RD 2: Management Structure, Budgeting Practices and Policies

**WMATA History**
The Authority was created by an interstate compact between the District of Columbia, the State of Maryland, and the Commonwealth of Virginia in 1967 to plan, develop, build, finance, and operate a balanced regional transportation system in the national capital area. Metro began building its rail system in 1969, acquired four regional bus systems in 1973, and began operating the first phase of Metrorail in 1976**.** Metrorail serves 91 stations and has 117 miles of track. Metrobus serves the nation's capital seven days a week with approximately 1,500 buses. Metrorail and Metrobus serve a population of approximately 4 million within a 1,500-square mile jurisdiction. It is now the third largest heavy rail transit system and sixth largest bus network in the U.S.

**Organizational Structure**
WMATA was created pursuant to the National Capital Transportation Act of 1960 and the Washington Metropolitan Area Transit Authority Compact ("the Compact"). The Compact, which was approved by Congress in 1966, sets forth WMATA's organizational framework, scope of operations, board of directors, plan of financing and other relevant duties and powers. The Compact also establishes the Washington Metropolitan Area Transit Zone, which consists of the District and 11 participating jurisdictions.

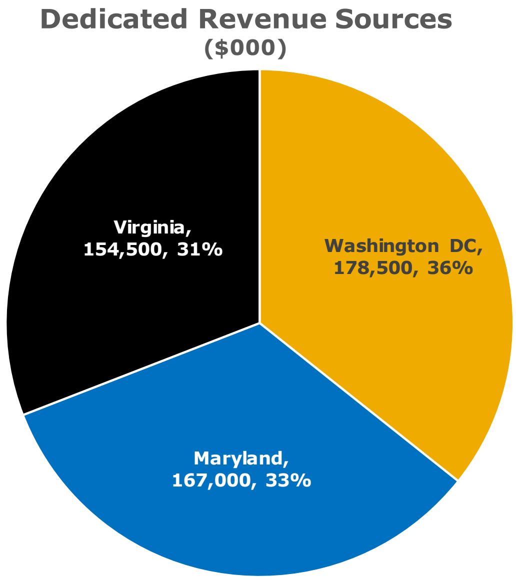
WMATA's structure as an interstate compact agency addressed the key challenge of coordinating interstate transportation planning. Prior to WMATA, private transportation companies were regulated by the public utility commissions of their respective states, while trips between jurisdictions were regulated by the U.S. Interstate Commerce Commission. The lack of coordinated schedules, routes, and fares increased commuting times and sometimes resulted in long wait times or the need for riders to change busses at state lines. To further enhance coordination efforts, the State of Maryland created the Washington Suburban Transit Commission to represent its territories within the Metro Area. Similarly, the Commonwealth of Virginia created the Northern Virginia Transportation Commission. These two organizations are responsible for coordinating transit programs with WMATA, their respective state departments of transportation, and other county or local governments within their respective service areas.

**Board of Directors**
The Compact establishes a board of directors ("the Board") composed of eight directors and eight alternative directors appointed by the Compact signatories and the federal government. Each signatory appoints two voting directors and two alternative directors. Board members from the District of Columbia are appointed by the Commissioners of the District of Columbia. Board members from the State of Maryland are appointed by the Washington Suburban Transit Commission and board members from the Commonwealth of Virginia are appointed by the Northern Virginia Transportation Commission. Board members appointed by the federal government are appointed by the Administrator of General Services.

The Board has a high degree of autonomy, with full rate setting authority. However, board members are appointed by local jurisdictions and there is implicit federal oversight. In KBRA's view, board members face inherent political conflict in attempting to balance the needs of the entire WMATA system with those of the jurisdictions they represent.

**Description of Dedicated Capital Funding Revenues**
In March 2018, each of the States passed legislation to direct dedicated revenues totaling in the aggregate approximately $500 million annually to WMATA exclusively for capital projects and debt service, subject to appropriations by the applicable governing body, to fund the Authority's capital programs and purposes. The joint provision marks the first time WMATA has had a dedicated source of capital funding since it was established in 1967. Figure 3 shows each of the governing bodies' share of the total dedicated revenue under the legislation.

**FIGURE 3**




*Source: WMATA*

**Figure 4**

| Dedicated Funding Sources from Participating Jurisdictions | | |
|---|---|---|
| **District of Columbia** | **Maryland** | **Virginia** |
| Sales Tax Receipts | Transportation Trust Fund | WMATA Capital Fund |
| | *Corporate Income Tax* | *Non-Restricted Sources (for Debt Service)* |
| | *Fuel Tax* | *Restricted Sources (not for Debt Service)* |
| | *Titling Tax* | |
| | *Sales and Use Tax* | |
| | *Motor Fuel Licenses and Registration* | |
| | *Other* | |
| | *Operating Fund* | |
| | *Investment Income* | |

*Source: WMATA*

## Budget and Appropriations Process

**District of Columbia**

The District of Columbia Home Rule Act passed on December 24, 1973 devolved certain congressional powers of the District to local government. The Home Rule Act provides for a locally elected Mayor and a 13-member Council, while Congress maintains supreme authority over the District and may overturn its local laws. Under the Home Rule Act, the Mayor is required to submit to the Council an annual budget prepared on the basis that proposed expenditures do not exceed resources.

The Local Budget Autonomy Amendment Act of 2012 (the "Budget Autonomy Act") was signed into law on February 15, 2013 and ratified by District voters in an April 2013 referendum. The Budget Autonomy Act became effective on January 1, 2014. Under the Budget Autonomy Act, the District may enact and appropriate its local fund budget without the need for affirmative approval by Congress. The local funds budget legislation is subject to Congressional review for 30 legislative days. Congress has, from time to time, taken actions regarding the Budget Autonomy Act and held hearings examining Congressional intent in drafting the Home Rule Act and the validity of the Budget Autonomy Act. None of such actions has had an impact on the Budget Autonomy Act to date, and no enacted federal appropriations legislation has included any language repealing the Budget Autonomy Act.

The District's annual operating budget has two parts - the Local Fund Budget and the Federal Fund Budget for the upcoming fiscal year and a multiyear plan (for four succeeding fiscal years) for all agencies as well as all sources of funding. The District has a multiyear capital improvement plan which informs the District's infrastructure, fixed asset, and other capital needs.

The CFO of the District is required to submit quarterly estimates of all revenue sources to the Mayor and Council. Monthly economic and revenue trends and expenditure growth projections are used in the preparation of the District's budget.

The District's fiscal year starts on October 1. Its annual budget process for the next fiscal year begins between July and September. The Mayor finalizes the proposed budget and submits it to the Council before the end of March in the next calendar year. Between March and June, Council holds budget hearings and reviews and approves the District's budget requests. Following Council approval, typically in June or July, the Mayor submits to the President a request to include the federally funded part of the District's budget in the federal budget, which is subject to the Congressional appropriation process. Congress is free to alter the federal portion of the District's budget.

Federal Fund Budget

The District receives federal revenues to fund certain expenditures incurred by the District. The federal government assumes the costs of certain state-like functions of the District, operations and maintenance of federal buildings, national monuments, and visitor attractions, as well as special security coverage to protect the White House, the Capitol, the Supreme Court, and other federal facilities and foreign embassies/ missions. Additionally, the federal government provides revenues to the District for programs such as Medicaid, school improvements, and Tuition Assistance Grant.

The Budget Control Act of 2011 and certain deficit reduction actions in 2013 resulted in automatic cuts in federal spending for designated agencies through 2021. The sequestration has resulted in lower annually available funds for the District from the federal government, but the impact has been less than anticipated.

Local Fund Budget

The District's annual budget must be approved by the U.S. Congress as part of one of the 12 annual federal appropriations bills. In the event of a congressional budget delay, certain expenditure items, such as debt service on income tax secured revenue bonds, general obligation bonds, general obligation tax revenue anticipation notes, and certain other types of debt, are exempted from congressional approval.

**Maryland**

Under Maryland's Constitution, the Governor is responsible for the preparation and introduction of Maryland's annual budget, which is required to be balanced. The Maryland General Assembly meets annually for 90 days, beginning the second Wednesday of each January. If the budget has not been enacted seven days before the end of session (the 83rd day), the Constitution requires the Governor to extend the session, and if the budget has not been enacted by the 90th day, the Maryland General Assembly cannot consider any matter except the budget. This places the normal budget deadline in early April, almost three months before the start of the next fiscal year (July 1). The Maryland General Assembly may amend the budget to increase or decrease appropriations relating to the legislative and judicial branches, but it may only strike out or reduce executive branch appropriations submitted by the Governor.

Pursuant to the Maryland Dedicated Revenue Statute (adopted in 2018), beginning in fiscal year 2020, the Governor is required to include in the State budget an appropriation of $167 million from the revenues available for the State capital program in the Transportation Trust Fund, which the Maryland Department of Transportation (MDOT) grants to the Washington Suburban Transit District ("WSTD") to pay the Authority's capital costs. The Transportation Trust Fund is funded with corporate income, fuel, titling, sales and use taxes, motor fuel licenses and registration, and operating funds. However, the Governor has the authority to appropriate General Funds for transfer to the Transportation Trust Fund to facilitate this funding. The dedicated revenues are payable quarterly and invoiced in advance.

**Virginia**

Virginia's biennial budget cycle begins in early spring with the development by the Governor's budget office of a baseline budget and official revenue estimate for the upcoming biennium. On or before December 20, following a budget development phase which considers state agency requests for additional funding, the Governor's proposed budget is pre-filed with the General Assembly in the form of a bill. The budget bill, which is a legal document listing budget appropriations at a detailed line-item level, is then introduced in each house of the legislature on the first day of the legislative session (the second Wednesday of January), and is immediately referred to the House Appropriations Committee and the Senate Finance Committee for discussion and amendment.

The Senate Finance Committee is responsible for acting on revenue bills which impact the appropriation process and must be reflected in the budget bill. Each house votes on the amended budget bill, with any differences ironed out by conference committee, prior to the budget bill being remanded to the Governor for his signature. Virginia law affords the Governor the right to suggest alterations to the budget bill or to veto appropriations made by the General Assembly. Once signed, the budget bill becomes the Appropriation Act. The Appropriation Act goes into effect on July 1 (the beginning of the biennium) in even-numbered years and on the date of passage in odd numbered years.

The Commonwealth is required by statute to maintain a balanced budget. The Governor must reduce expenditures and withhold allotments of appropriations in an amount up to 15% of a general fund appropriation (with the exception of amounts needed for debt service and other specified purposes), to the extent necessary to prevent any expenditure in excess of estimated revenues.

## Dedicated Funding Sources Funding Mechanism

**District of Columbia**

The District has elected to use a portion of its sales and use tax as this new dedicated funding source. The capital funding was authorized by the Dedicated WMATA Funding and Tax Changes Affecting Real Property and Sales Amendment Act of 2018 (the "Act of 2018"), which was then approved by the Congress during the FY 2019 budget process and enacted in October 30, 2018.

Sales and use tax revenue is the District's third-largest revenue source. It is generated from taxable sales in the District, which include most retail items, construction materials, and utilities used by business entities with certain exemptions[1]. Sales and use tax revenue represented 20% of the District's FY 2019 total tax revenue or 12.2% of total governmental fund revenue, and it grew by 4.5% annually for the last five years and approximated $1.6 billion for the year. On April 24th, the District revised its FY 2020 sales tax estimate downward by $400 million due COVID-19 related stay-at-home requirements.

Funding Mechanism

The District is not required to make any Dedicated Funding Grant payment until a Capital Funding Agreement ("CFA") that covers the corresponding period is signed by WMATA and the District. The District's commitment is subject to the appropriation and allocation of funds processes, and limitations under the District and federal law. The CFA is not a District obligation until funds are duly appropriated and allocated, and semi-annual payments (October 1 and April 1) became due.

Pursuant to the Act of 2018 and WMATA Dedicated Funding Grant Agreement (executed on February 14, 2020), the District will provide WMATA a Dedicated Funding Grant of $178.5 million commencing in FY 2019 through FY 2059. In the unlikely event that other members of the Compact do not pay their full amount of Dedicated Funding, the District reserves its rights to reduce its Dedicated Funding Grants for that fiscal year by a proportional amount.

WMATA will invoice the District at least 45 days prior to a payment due date. The District will provide to WMATA a written notice that funds have been/are intended to be/will not be appropriated to cover the Dedicated Funding Grant for the upcoming WMATA fiscal year. If the District's appropriation process for the upcoming year is not complete by July 1, the District is required to provide a written explanation and confirmation to WMATA that an amount equal to the Dedicated Funding Grant has been/will be included in the budget, and that the District will make reasonable efforts to secure the ultimate appropriation of funds in a timely fashion.
The current CFA will expire on September 30, 2020. The District may exercise options to renew the Agreement no more than six times each for a six-year period. According to the federal Anti-Deficiency Act, the District cannot obligate itself to any financial commitment in any present or future year unless the necessary funds to pay that commitment have been appropriated and are lawfully available. Therefore, the District funding commitment under the Agreement may not arise or obtain in advance of the applicable fiscal year and required to be appropriated annually.

In the event that the District were to terminate the CFA in whole or in part, it would have to provide a 60-day written notice to WMATA. While the District can withhold funds to WMATA during this period, it cannot terminate the Agreement completely until after WMATA's reconsideration request has been contemplated.

Flow of Funds

A WMATA Dedicated Funding Fund (the "Fund") is established under the Dedicated Funding for the Washington Metropolitan Area Transit Authority Emergency Act of 2018. The District will deposit $178.5 million of general sales tax revenues into the Fund each year from FY 2019 to FY 2059. Funding for FY 2019 was used as District payments to support WMATA for the fiscal year. Starting in FY 2020, such funding will be used as a grant for the purpose of WMATA's capital improvements. Moneys deposited into the Fund cannot be reverted to the District and the Fund is available for capital improvement related purposes without regard to fiscal year limitation.

[1] Exempted from sales and use tax are - groceries, feminine hygiene products, and diapers, prescription and nonprescription drugs, and professional services such as consulting, engineering, legal, and physician services.

**Maryland**

Under Maryland law, after meeting its debt service requirements, MDOT may use the funds in the Transportation Trust Fund for any lawful purpose related to the exercise of its rights, powers, duties, and obligations.[2] The Maryland Dedicated Revenue Statute provides that such grant to WSTD is in addition to existing appropriations for the benefit of the Authority. In FY 2019, $3.24 billion in revenues was deposited into the Transportation Trust Fund. Revenue sources include corporate income tax, fuel tax, titling tax, sales and use tax, motor fuel licenses and registration, and operating funds. On May 20, 2020, the State announced an expected $550 million Transportation Trust Fund revenue shortfall for the year ending June 30th due to the COVID-19 pandemic. An additional shortfall of $490 million to $550 million is currently projected for FY 2021. Maryland will apply CARES Act funding of $479 million over the two years as a partial offset.

In April 2018, Maryland adopted the Maryland Metro/Transit Funding Act ("Maryland Dedicated Revenue Statute") requiring the Governor to include in Maryland's budget an appropriation of $167,000,000 from the revenues available for the Maryland capital program in the Transportation Trust Fund and requiring the Maryland Department of Transportation ("MDOT") to provide an annual grant of at least $167,000,000 to the Washington Suburban Transit District ("WSTD") to be used to pay the capital costs of the Authority.

Maryland Dedicated Funding Grant Agreement

The Authority and Maryland, acting by and through WSTD and MDOT, have entered into a Dedicated Funding Grant Agreement, dated September 26, 2019 (the "Maryland Dedicated Funding Grant Agreement"), which provides for the disbursement of the Maryland Dedicated Capital Funding Revenues to WMATA. The Maryland Dedicated Funding Grant Agreement provides that Maryland's commitment shall be subject to the annual appropriation and allocation of funds and other limitations on expenditures or obligations under the law of Maryland or under other applicable law. Such Maryland Dedicated Funding Grant Agreement shall not constitute an indebtedness of Maryland until funds are duly appropriated. The Maryland Dedicated Funding Grant Agreement notes that the District and the Commonwealth also provide dedicated funding capital grants for capital costs and provides that if the Commonwealth or the District reduce the amount of dedicated funding appropriated for the Authority, the Governor may reduce Maryland's appropriation by a proportional amount. The term of the Maryland Dedicated Funding Grant Agreement began on September 26, 2019, and automatically renews each July 1 unless one party provides written notice requesting to amend or modify such agreement at least 90 Days prior to July 1.

WMATA Responsibility

Under the Grant Agreement, WMATA is required to apply Maryland's dedicated revenues to items identified in the approved CIP. The CIP must contain: (1) the Authority's safety, state of good repair, and financial accountability goals; (2) program priorities; (3) the criteria used to select capital projects for inclusion in the CIP; (4) the manner in which each project was evaluated and ranked; (5) descriptions of capital projects; (6) a list of capital projects, including reimbursable projects and an estimate of program level expenditures for the budget request year, and the five successive planning years, including estimates of future funding requirements for the planning year; (7) for each listed capital project, an indication of whether the revenue source anticipated to support that project consists of federal, jurisdictional, or other funds; and (8) the Authority's estimates of the levels and sources of revenues to be used to fund the projects in the CIP.

By June 1 of each year WMATA is required to submit to MDOT and WSTD audits for the most recently completed fiscal year and a budget for the upcoming year. Debt policy is to be reviewed and approved by the Board at least annually. Additionally, measures are required to be in place to (1) assess capital project investments; (2) gauge performance toward outcomes; and (3) demonstrate the responsible investment of grant funds toward meeting the goals of keeping the Transit System safe and its infrastructure in a state of good repair. Monthly reports are also required detailing changes in project scope, increased costs over $5 million, or new projects. As a condition of the funds being distributed to WSTD for the Authority, MDOT will conduct a fiscal/compliance audit of the combined dedicated capital funds to ensure they are spent in accordance with the Authority's approved CIP.

**Virginia**

Legislation enacted by the General Assembly of Virginia in 2018 created the Washington Metropolitan Area Transit Authority ("WMATA") Capital Fund, a special non-reverting fund for the benefit of the Northern Virginia Transportation District.

Amounts due to the WMATA Capital Fund are subject to annual appropriation by the Commonwealth General Assembly. The fiscal year for both the Commonwealth and WMATA begins on July 1. If, by June 1, the Commonwealth has not completed its appropriation process for the upcoming fiscal year, it shall notify WMATA that its contribution will be

[2] Md. Transp. Code §3-216(d).

included in the budget and that all reasonable efforts will be undertaken to secure the appropriation on a timely basis. If funds will not be appropriated, the Commonwealth shall provide five business days' notice to WMATA.

The WMATA Capital Fund includes both a Restricted Account and a Non-Restricted Account. Amounts in the Restricted Account are only available for capital purposes and may not be used for the payment of, or security for debt service on WMATA bonds, whereas funds in the Non-Restricted Account can be used for both capital and debt service purposes. The Commonwealth's 2018 legislation [HB 1539/SB 856 Code of Virginia (1950), as amended] dedicates the following revenues to the WMATA Capital Fund:

<u>Restricted Sources of Dedicated Revenues:</u>

- **Northern Virginia Transportation District Fund** annual transfer of $20 million
- **Motor Vehicle Rental Tax** – This revenue source, estimated at $10 million per year, is comprised of 1/3 of all moneys collected from the tax on the gross proceeds from the rental in Virginia of any motor vehicle at the tax rate in effect on December 31, 1986.

<u>Non-Restricted Sources of Dedicated Revenues</u>:

- **Local Transportation Funds –** Each of the jurisdictions that are members of the Northern Virginia Transportation Authority ("NVTA") Transit Zone shall annually pay its proportionate share of WMATA capital funding in the aggregate annual amount of $27.12 million.
- **Regional Transportation Improvement Fee** – Fees of $0.15/$100 paid by the grantor on each deed associated with the sale of realty located in any jurisdiction in the Transit Zone shall be collected by the clerk of the court and transferred as soon as practicable to the State treasury for deposit into the WMATA Capital Fund. Annual proceeds of the Regional Transportation Improvement Fee are estimated at $44.9 million. This realty tax (and the transient occupancy tax described below) were formerly received by the NVTA.
- **Transient Occupancy Tax -** The transient occupancy tax at the rate of 2% on hotel rooms in the Transit Zone is administered by the locality in which the room is located. The revenue generated is deposited by the local treasurer into the state treasury and transferred by the Comptroller into the WMATA Capital Fund. Annual transient occupancy tax revenues of $29.7 million are estimated.
- **Wholesale Fuel Sales Tax –**Taxes on the sale of fuels at wholesale to retail dealers for retail sale in any jurisdiction in the Transit Zone will be deposited to the WMATA Capital Fund in an amount equal to a 1/12th portion of the increase in taxes, interest and civil penalties paid to the Commissioner in Fiscal Year 2019 versus Fiscal Year 2018, less any amounts deposited pursuant to the Commuter Rail Operating and Capital Fund. Annual revenue from this funding source is estimated at $22.3 million.

As is the case with the other states, Virginia's statute and related funding agreements require that Maryland and the District of Columbia also have legislation in place that provides for dedicated funding to WMATA. Virginia's payments to the WMATA Capital Fund may be proportionately reduced to the extent that Maryland and the District of Columbia do not pay their obligations in full.

The Northern Virginia Transportation Commission ("NVTC") was founded in part to represent the interests of the Commonwealth during the establishment of WMATA. Pursuant to the 2018 legislation, the NVTC is required to provide oversight and to confirm the benefits of the WMATA system to the localities that comprise the NVTC. These jurisdictions, which include the cities of Alexandria, Falls Church and Fairfax and the counties of Arlington and Fairfax provide local funding to and receive transit service from WMATA. Loudoun County will become a funding partner of WMATA in advance of the start of operations on Phase 2 of WMATA's Silver Line.

The NVTC must annually certify that it has received WMATA's annual capital budget, annual independent financial audit, National Transit Data annual profile and single audit reports. By November 1 of each year, NVTC must also report to the Governor and the General Assembly on various measures of WMATA's operating and financial performance, including strategies to improve operating efficiencies and how funds have been used to improve the safety and condition of the rapid heavy rail mass transportation system.

Pursuant to the May 2019 CFA between the Commonwealth and WMATA, subject to allocation and appropriation, the Comptroller of the Commonwealth shall disburse 1/12th of the dedicated revenue contribution from the WMATA Capital Fund to WMATA no later than the 25th of each month. Disbursements of Restricted Funds are made to the Restricted Account and disbursements of Non-Restricted Funds are made to the Non-Restricted Account. Interest accruing on all deposits into either fund remain with WMATA until the funds are expended. If the balance in the WMATA Capital Fund is not sufficient to cover the monthly disbursement amount, the entire balance in the WMATA Capital Fund as of the end of the prior month shall be disbursed to WMATA, and this shall continue every month until the monthly disbursement has returned to the scheduled 1/12$^{th}$ monthly payment in full and all prior monthly disbursements have been made whole. The Dedicated Funding Agreement requires the Commonwealth to notify WMATA in writing if available funds collected in the WMATA Capital Fund are expected to be insufficient to satisfy the current dedicated revenue contribution. The written notification must provide a new contribution amount. Such notification would trigger a meeting with representatives of the District of Columbia and Maryland regarding the annual CIP budget commitments.

The Dedicated Funding Agreement limits the percentage of funding by the Commonwealth for its share of WMATA capital funding to 30.9%. This percentage is applied annually to no more than $500 million of the annual WMATA CIP to calculate the Commonwealth's contribution. For FY 2019 only, the contribution was $121.3 million. To date, the Commonwealth has deposited $35.8 million in dedicated revenues from restricted sources to the Restricted Account and $175.6 million in dedicated revenues from non-restricted sources to the Non-Restricted Account

## RD 3: Debt and Additional Continuing Obligations

**District of Columbia**

As of September 30, 2019, outstanding indebtedness of the District totals $11.56 billion. This includes $6.3 billion in General Obligation bonds, $3.7 billion in income tax secured bonds, $104.0 million in tax increment bonds, $375 million in Bond Anticipation Notes, and $1.15 billion in other forms of debt. The District's overall debt per capita of $16,453 is high while the overall debt to full market value of 3.59% is moderate. Debt service as a percentage of governmental expenditures is moderate at 6.37%.

The District participates in a cost-sharing multi-employer defined benefit pension plan administered by the Civil Service Retirement System ("CSRS") and two single-employer defined benefit pension plans through the District Retirement Funds. Historically, the District has fully funded its pension ADC and OPEB ARC. In FY 2019, the District contributed $152 million to its pension funds with the actuarial contribution equal to 1.7% of total governmental expenditures. As of FY 2019, the NPL (which was $229 million) was equivalent to 1.03% of full market value and $327 per capita. The annual OPEB contribution in FY 2019 was $46 million. Total fixed costs, including debt service and OPEB and pension contributions, as a percentage of total governmental expenditures were manageable at 7.73%.

**Maryland**

Maryland's debt and long-term obligation metrics are characterized by relatively high fixed costs reflecting debt issuance and pension and OPEB liabilities. The State's debt management policy limits GO bond amortization to 15 years and limits debt to 4% of personal income in 2013, the State passed legislation that phased in actuarial annual funding of its pension obligations by 2017 and requires supplemental pension funding. In subsequent years, some of this supplemental funding has been reduced by the Legislature. The State did not fully fund its actuarially determined contribution ADC from 2003-2016. The FY2021 budget includes full funding and a supplemental pension funding contribution of $75 million. The funded ratio of all plans was 72.25% as of June 30, 2019, and the net OPEB liability was approximately $15 billion. Supplemental contributions will continue until the System is 85% funded.

As of December 31, 2019, total debt outstanding was $13.8 billion, including approximately $9.6 billion of general obligation bonds, $3.7 billion of Department of Transportation Bonds, with the balance represented by Grant Anticipation Revenue Vehicle ("GARVEE") Bonds, lease commitments and Bay Restoration Revenue Bonds. Total State Tax-Supported Debt was 3.5% of personal income at FYE 2019 and debt per capita was $2,238. There is no general debt limit imposed by the State Constitution or public general laws. The State has the authority to issue short-term notes in anticipation of tax collections or other receipts up to a maximum amount of $100 million but has not borrowed for this purpose.

The FY 2021 capital budget authorizes the issuance of $1.1 billion in general obligation debt, including $326.1 billion in bonds to improve public schools and $409.5 million to provide for construction and improvement of state-owned facilities. Other general obligation bond funded projects include Chesapeake Bay restoration, community college facilities, affordable housing, hospital improvements and community facilities. The State's five-year Capital Improvement Program for FY 2021 through FY 2025 includes $5.65 billion in general obligation bond sale revenue.

**Virginia**

The Commonwealth has a consistent record of conservative fiscal stewardship. Constitutional debt limits and strict internal policies have enabled the Commonwealth to maintain a low long-term liability burden. The Commonwealth's total fixed cost ratio is favorably low at 3.17% of government expenditures in FY 2019.

Total debt outstanding was $46.5 billion as of FYE 2019, approximately 47% of which was tax-supported debt and 53% of which was non-tax supported. Debt ratios are favorable, with total debt equivalent to 1.62% of personal income and total debt per capita at $951 in FY 2019. Commonwealth statutes limit the amount of general obligation debt that may be issued to fund capital project to 1.15x the average of selected tax revenues for the prior three fiscal years. Bonds backed by the Commonwealth's full faith and credit totaled $1.3 billion as of FYE 2019. An additional $926.5 million was considered non-tax supported moral obligation debt. FY 2019 general obligation bonded debt per capita was $153, and 8.85% of income tax collections. The Commonwealth may not borrow to satisfy its funding obligations to WMATA.

The Virginia Retirement System (the "System") is an independent agency of the Commonwealth that administers pension, OPEB and other funds for Commonwealth employees. The System administers four pension trust funds: The Virginia Retirement System ("VRS"); State Police Officers' Retirement System ("SPORS"); Virginia Law Officers' Retirement System ("VaLORS"); and the Judicial Retirement System ("JRS"). The System also administers five OPEB funds. The System has 346,273 active members and 214,545 retired members as of FYE 2019 with 833 participating employers.

VRS is a combination of mixed-agent and cost-sharing, multiple employer retirement plans. As of FY 2019, the Plan net position restricted for benefits was $82.8 billion. The Plan funded ratio was 75.13% for the VRS State plan, 73.51% for the VRS Teacher Plan and 87.82% for the aggregate total of the VRS Political Subdivision Plans. For the SPORS, VaLORS and JRS plans, the plan fiduciary net position as a percentage of the total liability was 73.52%, 68.31% and 82.16%, respectively. The assumption for the actuarial rate of return was reduced to 6.75% from 7.00% in October 2019. FY 2019 contributions for VRS were $3.51 billion or 8.5% of total government expenditures of $41.1 billion. The June 30, 2019 net pension liability[3] of $3.93 billion (110% of covered payroll) equates to a low $462 per capita.

The System's total OPEB liability of $6.6 billion (inclusive of disability programs) was determined based on the actuarial valuation as of June 30, 2018. The funded position for the various OPEB funds administered by the System ranged from a high of 57.33% for the VRS political subdivision plans to a low of 8.97% for the teacher employee plan.

## RD 4: Financial Performance and Liquidity Position

**District of Columbia**

The District possesses a diverse general fund (GF) revenue stream, comprised of operating grants and contributions (27.5%), income and franchise taxes (20.8%), property taxes (20.3%), sales and use taxes (12.0%), and other sources each accounting for less than 7% of total revenue. In FY 2019, general fund revenues increased by 9.52% ($824 million) from the prior year to $9.5 billion, driven by increases in individual income and franchise taxes (as a result of changes in federal tax legislation that increased the taxable income of businesses). General fund expenditures increased by 4.09% ($348 million) to $8.9 billion, due to increases in support services for vulnerable residents (particularly funding for Medicaid), and public education (due to higher student enrollment). As a result, total fund balance increased to $3.25 billion in FY 2019 as compared to $2.78 billion in FY 2018. As of FY 2019, the District had approximately $2.24 billion in cash and cash equivalents within its general funds, equating to approximately 63 days cash on hand. The District has demonstrated operating surpluses over the last five years.

**Maryland**

The financial condition of the State is strong based on the State's history of maintaining its Revenue Stabilization Account ("RSA") in an amount equal to approximately 5% of General Fund ("GF") budgetary basis revenues, even during the recession, and the State's commitment to making budget adjustments when needed to maintain fiscal balance. The major GF revenue sources are income, sales, motor vehicle and property taxes. The State budgets and operates on a budgetary basis, which is close to the GAAP modified accrual basis of accounting.

- Historical operating results are mixed. GAAP General Fund operating surpluses were $960 million and $375 million in FYs 2019 and 2018, respectively. However, in FY 2017 the General Fund had a $438 million operating deficit.
- The accuracy of budgeting has shown recent strength. FY 2019 and 2018 General Fund operations outperformed budget. General Fund income taxes increased 7.5% in FY 2019, outperforming budget by $308 million. The State's reliance on capital gains taxes and its difficulty in accurately projecting these revenues is similar to that of other high wealth states, including NJ, NY, CA and MA.
- Reserves are strong. The FY 2019 RSA balance of $2.1 billion represents 11.5% of GF budgetary basis expenditures. The State's goal is to maintain 10% of estimated GF revenues in the RSA. The FY 2019 GAAP fund balance of $2.7B is 8.3% of expenditures.

[3] Based on June 30, 2017 actuarial valuation and rolled forward to the measurement date of June 30, 2018.

- Liquidity is also strong. FYE 2019 GF cash and investments of $2.7 billion is a substantial increase from the prior year's $1.4 billion.

**Virginia**
The Commonwealth's primary revenue sources include income taxes (67%), sales taxes (17.6%) and corporation income (4.2%). Fiscal year 2019 General Fund revenues increased 3.5% over the prior fiscal year, while expenditures were up 2.0%. The largest expenditure items include funding for health, social services and sanitation followed by educational expenses. Over the past several years, the Commonwealth has utilized temporary measures such as accelerated sales taxes, to mitigate difficult economic conditions.

The Commonwealth recorded a 2019 combined General Fund ending balance of $1.6 billion, all of which is non-spendable, restricted or committed. The unassigned fund balance was negative at $264.2 million.

As of FYE 2019, cash and cash equivalents of $5.7 billion equated to approximately 95 days cash on hand, or about 2.6% of general fund expenditures.

In 1993, the Commonwealth established a Revenue Stabilization Fund (the "rainy day fund") to offset revenue shortfalls. The Revenue Stabilization Fund is funded by the set aside of ½ of the above average revenue growth in a given fiscal year (plus interest earned). Amounts in the Revenue Stabilization Fund may be withdrawn only if general fund revenues are projected to decline by more than 2% of the most recent prior fiscal years' certified income and sales tax collections. Withdrawals in a given fiscal year cannot exceed more than ½ of the fund balance. Anticipated economic downturns which are built into a revenue forecast do not trigger a withdrawal. The Revenue Stabilization Fund had a FYE 2019 balance of $629.7 million. A deposit of $263 million is required during FY 2020, and a deposit of $77.4 million is required during FY 2021.

A Revenue Reserve Fund was established in 2018 to offset additional revenue shortfalls. The Revenue Reserve Fund had a FYE 2019 balance of $502.6 million. The combined maximum balance in the Revenue Stabilization Fund and the Revenue Reserve Fund cannot exceed 15% of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years. Their combined FY 2019 balance of $1.13 billion equated to 5.2% of General Fund expenditures.

## RD 5: State Resource Base
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"). The MSA is the fifth largest in the country by population and the sixth largest by gross state product ("GSP"). The MSA is also one of the wealthiest and fastest-growing economies in the nation.

For the purpose of economic and demographic analysis, KBRA examines and compares information for the participating jurisdictions (District of Columbia, Maryland, and Virginia) to the Mideast and Southeast regions and to the U.S. The participating jurisdictions all have a very strong socioeconomic profile characterized by an affluent populace, a highly educated labor pool and growth in state income compared to both the region and the U.S. KBRA notes that while the poverty rate in D.C. is high, this is not an uncommon feature in many urban areas.

As the COVID-19 pandemic crisis continues to unfold, KBRA expects the disruptions to the participating jurisdictions' economy will be very significant. Certain of the dedicated funding sources provided to WMATA are generated from economically sensitive revenues. KBRA will closely monitor both the magnitude of disruption to these revenue sources and the overall pace and degree of recovery in each of the participating jurisdictions.

District of Columbia
The District is the capital of the United States and the seat of the three branches of the federal government. It also hosts the main offices of many federal departments and agencies and a substantial number of foreign embassies, diplomatic missions, and international organizations.

The District benefits from a broadly developed economy with a growing concentration in professional, technical, and other high value-added activities, including technology, healthcare, and education; however, the sizable footprint of the federal government is evidenced by concentrations at over 30% of the District workforce. The government sector and related professional/business employment are less volatile during economic cycles but more exposed to workforce fluctuations tied to the fiscal and political priorities of the federal electorate. Note that the MSA's economic recovery following the 2008 financial crisis lagged other metro areas owing in part to limitations of the Budget Control Act of 2011 and subsequent budget sequestration of 2013 that resulted in the loss of 20,000 federal jobs in the MSA through 2014.

The District's dedicated revenue to WMATA is comprised of sales and use tax revenue, which is highly sensitive to economic conditions and is expected to be negatively impacted by the COVID-19 pandemic. The severity of such impact is dependent upon the duration of the shutdown and the timing and pace of rebound in the national and local economies. KBRA will continue to monitor this revenue stream as trends in sales performance and sales tax collection data during the pandemic period become available.

Maryland

The State's diversified economy has grown at a slightly higher rate than the nation since the Great Recession. Per capita income has increased by 31.3% from 2010 to 2019 and is 116% of the national average. The State's employment profile reflects its proximity to the nation's capital with a significant percentage of the residents employed by the federal government, its agencies (18%) and professional services (16%), making the State vulnerable to cuts in federal spending. The education and health services sector is the second-largest employment sector in the State, employing 17% of the labor force.

The Port of Baltimore is one of the largest ports on the East Coast by tonnage and is also one of the State's top employers. The Port handles more trading activities with Europe than with China, and as such has been less affected by recent tariff increases than its West Coast counterparts. However, as a result of COVID-19, cargo tonnage through February has fallen by 4.4%. While the impact related to COVID-19 remains fluid, Port executives do not expect cargo volume to recover to pre-pandemic levels in the second quarter of 2020.

The impact of the pandemic on the State's dedicated revenue sources, including corporate income tax, sales and use tax, fuel tax, and titling tax is expected to be negative. KBRA will continue to monitor the collection data of these revenue sources as they become available.

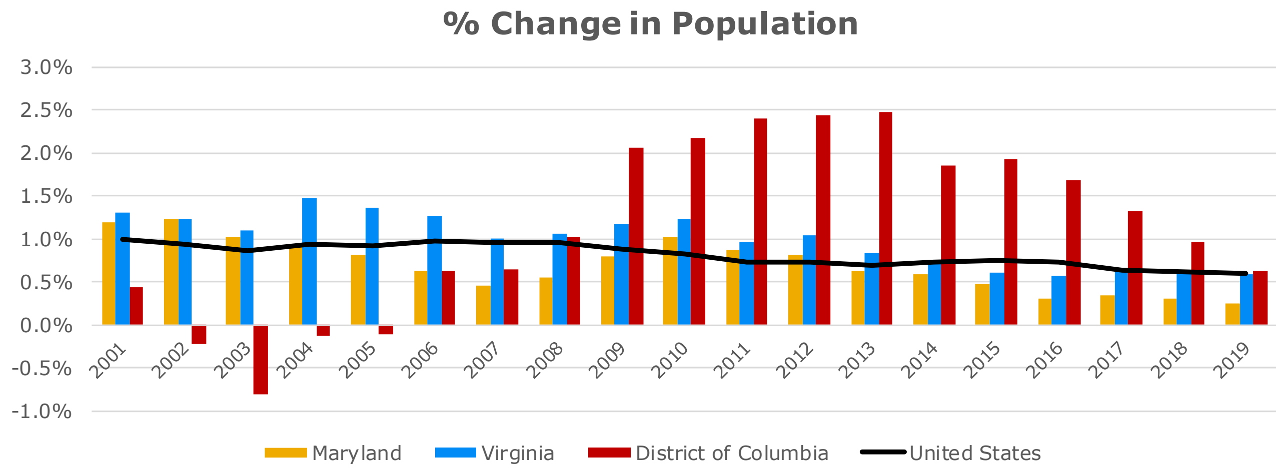
Virginia

The Commonwealth's diversified economic base is driven by civilian and military employment related to the federal government. The largest metropolitan area and the State capital of Richmond are located in the northern part of the Commonwealth, which is also home to one of the nation's fastest growing high-tech centers for computer software and telecommunications, and to George Mason University, the Commonwealth's largest university and public research university.

The Commonwealth's population growth rate of 6.4% from 2010-2019 exceeds the national average. The population is highly educated with a below-average poverty rate. Income levels are higher than the region and the U.S. average.

The Commonwealth has demonstrated strong employment growth since the previous recession, particularly in the education and health, professional and businesses, and leisure sectors. The top-5 private employers of the Commonwealth include Walmart, Sentara Healthcare, Huntington Ingalls/Newport News Shipbuilding (transportation equipment manufacturing), Capital One Bank, and Food Lion. The Commonwealth also has a strong government sector presence. The top-5 public employers include the U.S. Department of Defense, Fairfax County Public Schools, U.S. Postal Services, Fairfax County, and the U.S. Department of Homeland Security. While real GSP per capita is high, recovery in this metric since the recession has lagged both the region and the nation.

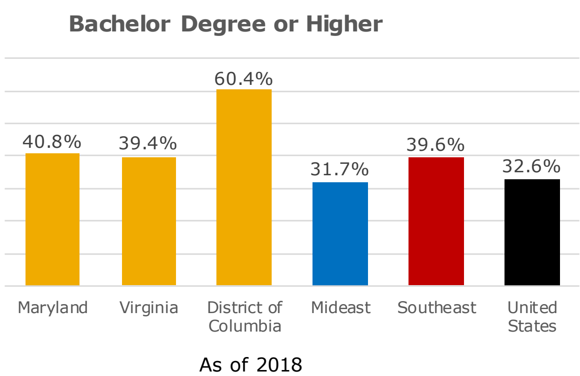
**FIGURE 5**

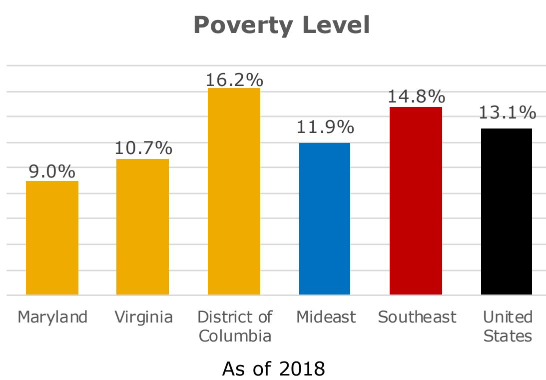



| | 2000 | 2010 | 2019 | % Δ 2010 to 2019 |
|---|---|---|---|---|
| Maryland | 5,311,034 | 5,788,642 | 6,045,680 | 4.4% |
| Virginia | 7,105,817 | 8,023,680 | 8,535,519 | 6.4% |
| District of Columbia | 572,046 | 605,085 | 705,749 | 16.6% |
| Mideast | 46,386,027 | 48,204,184 | 48,862,933 | 1.4% |
| Southeast | 69,497,232 | 78,571,433 | 84,902,403 | 8.1% |
| United States | 282,162,411 | 309,326,085 | 328,239,523 | 6.1% |

*Source: U.S. Bureau of Economic Analysis*

**FIGURE 6**



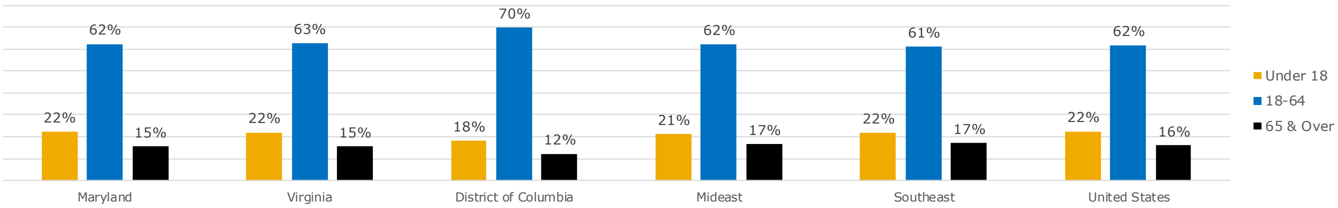




| | Point Δ 2010 to 2018 | Point Δ 2010 to 2018 |
|---|---|---|
| Maryland | 0.05 | -0.009 |
| Virginia | 0.05 | -0.004 |
| District of Columbia | 0.10 | -0.030 |
| Mideast | 0.04 | -0.011 |
| Southeast | 0.06 | -0.025 |
| United States | 0.05 | -0.022 |

*Source: U.S Census*
*Bachelor degree or higher defined as "% of population over 25 with Bachelor's degree or higher".*
*Poverty level defined as "portion of population living below the poverty line".*

## FIGURE 7

**Age Groups**




As of 2018

| | % Δ 2010 to 2018 | % Δ 2010 to 2018 | % Δ 2010 to 2018 | % Δ 2010 to 2018 | % Δ 2010 to 2018 | % Δ 2010 to 2018 |
|---|---|---|---|---|---|---|
| Under 18 | -0.8% | 0.9% | 26.3% | -4.4% | 0.8% | -1.1% |
| 18-64 | 1.3% | 2.7% | 12.7% | -0.8% | 4.4% | 3.4% |
| 65 & Over | 31.1% | 34.5% | 12.7% | 22.3% | 32.3% | 29.7% |

*Source: U.S. Census*

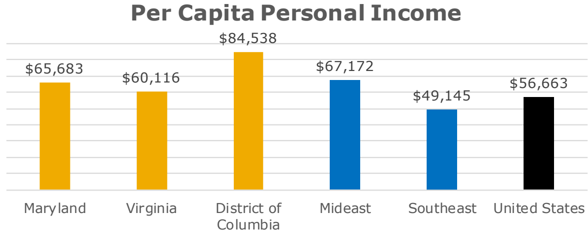
## FIGURE 8

| State Income 2019 | | |
|---|---|---|
| | **Personal Income ($ in millions)** | **% Δ 2010 to 2019** |
| **Maryland** | 397,100 | 37.2% |
| **Virginia** | 513,122 | 40.6% |
| **District of Columbia** | 59,663 | 55.0% |
| **Mideast** | 3,282,243 | 42.6% |
| **Southeast** | 4,172,490 | 45.6% |
| **United States** | 18,599,062 | 48.3% |

*Source: U.S. Bureau of Economic Analysis*

## FIGURE 9

**Per Capita Personal Income**

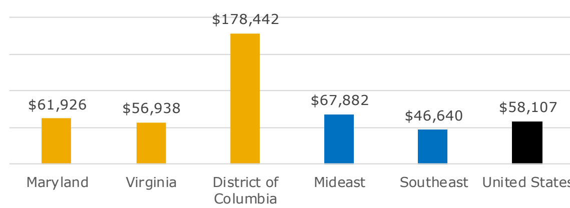



| As of 2019 | |
|---|---|
| | **% Δ 2010 to 2019** |
| **Maryland** | 31.3% |
| **Virginia** | 32.1% |
| **District of Columbia** | 32.9% |
| **Mideast** | 40.7% |
| **Southeast** | 34.7% |
| **United States** | 39.7% |

*Source: U.S. Bureau of Economic Analysis*

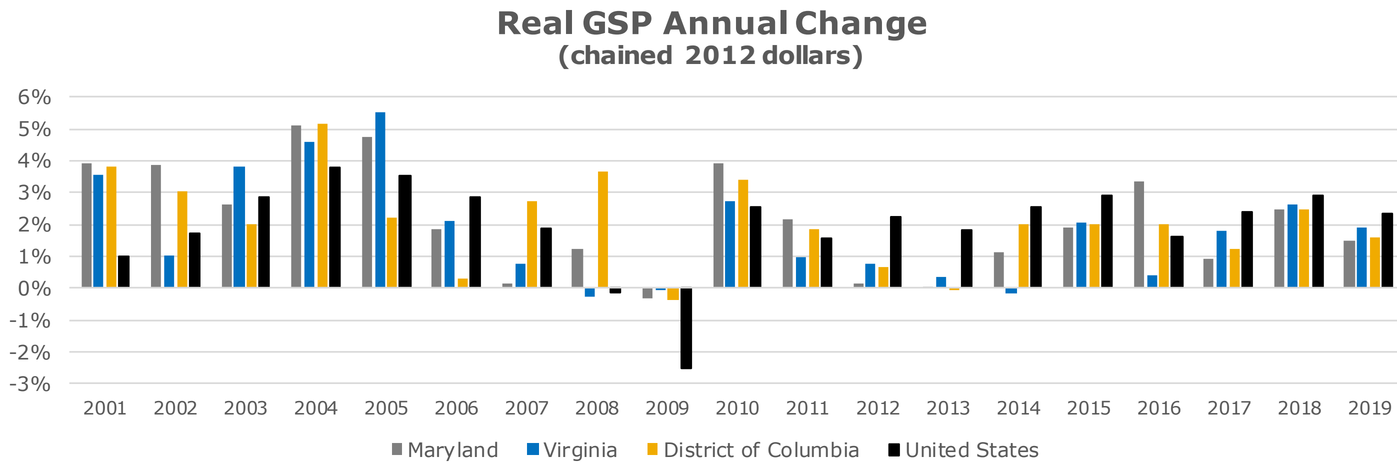
## FIGURE 10

**Real GSP Per Capita**




| As of 2019 | |
|---|---|
| | **% Δ 2010 to 2019** |
| **Maryland** | 9.5% |
| **Virginia** | 4.5% |
| **District of Columbia** | -1.8% |
| **Mideast** | 12.6% |
| **Southeast** | 8.3% |
| **United States** | 15.2% |

**FIGURE 11**




| ($ in Millions) | 2000 | 2010 | 2019 | % Δ 2010 to 2019 |
|---|---|---|---|---|
| Maryland | 250,982 | 327,235 | 374,386 | 14.4% |
| Virginia | 346,161 | 437,268 | 485,998 | 11.1% |
| District of Columbia | 85,265 | 109,964 | 125,936 | 14.5% |
| Mideast | 2,490,916 | 2,905,744 | 3,316,906 | 14.1% |
| Southeast | 2,876,077 | 3,382,596 | 3,959,844 | 17.1% |
| United States | 13,130,987 | 15,598,753 | 19,073,056 | 22.3% |

*Source: U.S. Bureau of Econocmic Analysis*

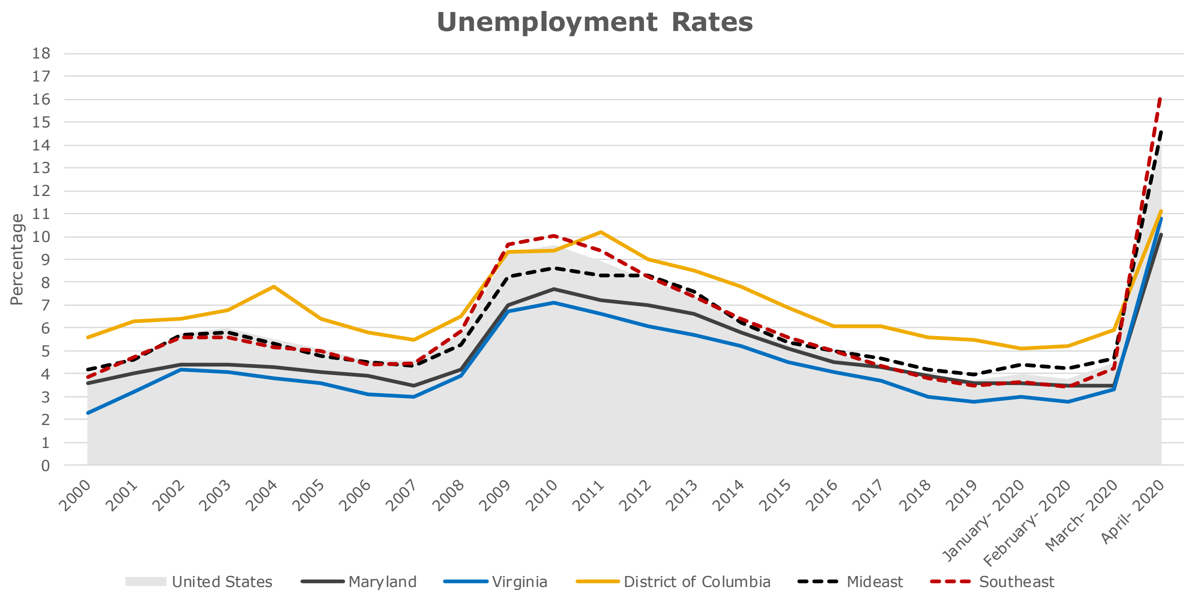
Note: Output for the "United States" represents GDP of the United States, not the sum of all 50 states.

**FIGURE 12**

| Top Private Sector Employers FY 2019 | # Employees |
|---|---|
| Inova Health System | 18,000 |
| MedStar Health | 16,754 |
| Marriott International Inc. | 14,772 |
| General Dynamics Corp | 13,750 |
| Deloitte LLP and Subsidiaries | 12,792 |
| Booz Allen Hamilton Inc. | 12,780 |
| Giant Food LLC | 10,500 |
| Amazon.com | 10,000 |
| Hilton Worldwide Holdings Inc. | 9,888 |
| Leidos Holdings Inc. | 9,031 |

*Source: WMATA CAFR*

## Figure 13




| | Maryland | Virginia | District of Columbia | Mideast | Southeast | United States |
|---|---|---|---|---|---|---|
| Great Recession Peak | 7.7 | 7.1 | 10.2 | 8.6 | 10.0 | 9.6 |
| April 2020 | 10.1 | 10.8 | 11.1 | 14.6 | 16.3 | 14.7 |
| Point Δ Since Great Recession Peak | +2.4 | +3.7 | +0.9 | +6.0 | +6.3 | +5.1 |

*Source: U.S Bureau of Labor Statistics*

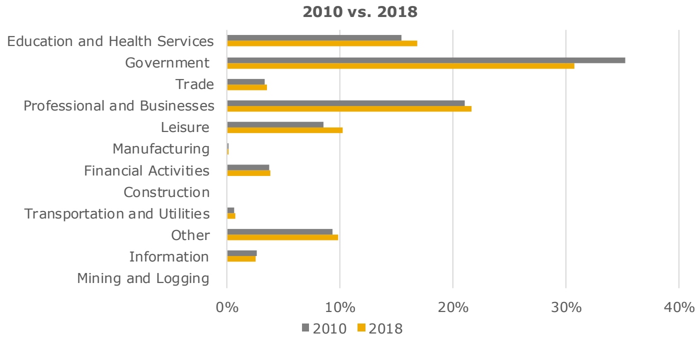
## Figure 14

| Total Employment | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Maryland** | **% Δ** | **Virginia** | **% Δ** | **District of Columbia** | **% Δ** | **Mideast** | **% Δ** | **Southeast** | **% Δ** | **United States** | **% Δ** |
| 2009 | **2,820,245** | -1.9% | **3,842,516** | -3.2% | **304,500** | -1.5% | 22,394,464 | -3.1% | **33,881,632** | -4.7% | 139,877,000 | -3.8% |
| 2010 | 2,838,492 | 0.6% | 3,860,386 | 0.5% | 313,508 | 3.0% | **22,281,934** | -0.5% | 33,962,180 | 0.2% | **139,064,000** | -0.6% |
| 2011 | 2,872,084 | 1.2% | 3,934,326 | 1.9% | 315,171 | 0.5% | 22,352,607 | 0.3% | 34,481,969 | 1.5% | 139,869,000 | 0.6% |
| 2012 | 2,902,307 | 1.1% | 3,967,987 | 0.9% | 331,984 | 5.3% | 22,558,433 | 0.9% | 35,008,273 | 1.5% | 142,469,000 | 1.9% |
| 2013 | 2,923,498 | 0.7% | 3,995,182 | 0.7% | 342,351 | 3.1% | 22,734,395 | 0.8% | 35,305,357 | 0.8% | 143,929,000 | 1.0% |
| 2014 | 2,941,562 | 0.6% | 4,019,470 | 0.6% | 349,686 | 2.1% | 22,844,735 | 0.5% | 35,728,486 | 1.2% | 146,305,000 | 1.7% |
| 2015 | 2,980,007 | 1.3% | 4,028,400 | 0.2% | 362,420 | 3.6% | 23,148,072 | 1.3% | 36,224,062 | 1.4% | 148,834,000 | 1.7% |
| 2016 | 3,019,150 | 1.3% | 4,069,050 | 1.0% | 371,295 | 2.4% | 23,289,996 | 0.6% | 37,032,878 | 2.2% | 151,436,000 | 1.7% |
| 2017 | 3,057,673 | 1.3% | 4,150,132 | 2.0% | 377,153 | 1.6% | 23,362,005 | 0.3% | 37,919,187 | 2.4% | 153,337,000 | 1.3% |
| 2018 | 3,071,652 | 0.5% | 4,202,801 | 1.3% | 382,140 | 1.3% | 23,487,389 | 0.5% | 38,485,601 | 1.5% | 155,761,000 | 1.6% |
| 2019 | 3,143,967 | 2.4% | 4,289,132 | 2.1% | 387,482 | 1.4% | 23,678,804 | | 39,095,619 | | 157,538,000 | |
| **Δ 2010 to 2019** | | **10.8%** | | **11.1%** | | **23.6%** | | **5.4%** | | **15.1%** | | **12.0%** |
| **Δ Since Trough** | | **11.5%** | | **9.4%** | | **25.5%** | | **5.4%** | | **13.6%** | | **12.0%** |
| April 2020 | 2,730,912 | -13.1% | 3,841,033 | -10.4% | 358,366 | -7.5% | 20,329,559 | 0.4% | 33,287,212 | -14.9% | 133,326,000 | 0.5% |

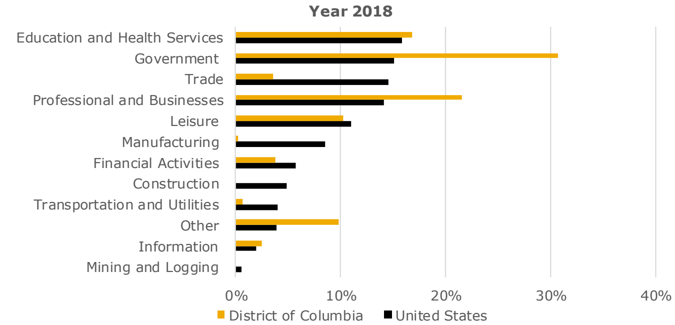
*Source: U.S Bureau of Labor Statistics*

**Bold = trough during the Great Recession (2008-2012)**

### Figure 15
**District of Columbia**
**Employment by Sector**

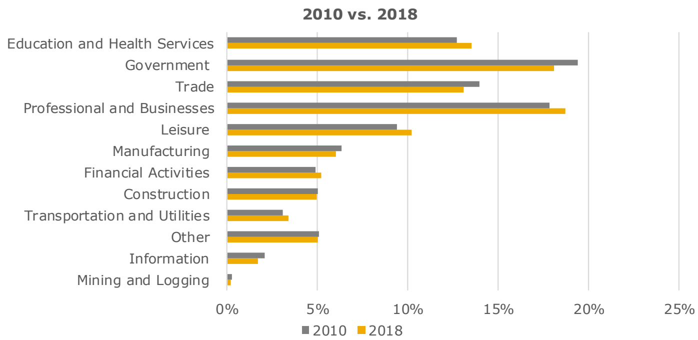



### Figure 16
**District of Columbia vs. United States**
**Employment by Sector**

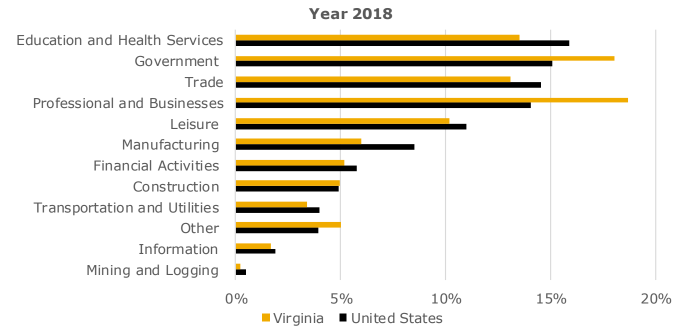



*Source: U.S. Bureau of Economic Analysis*

### Figure 17
**Virginia**
**Employment by Sector**

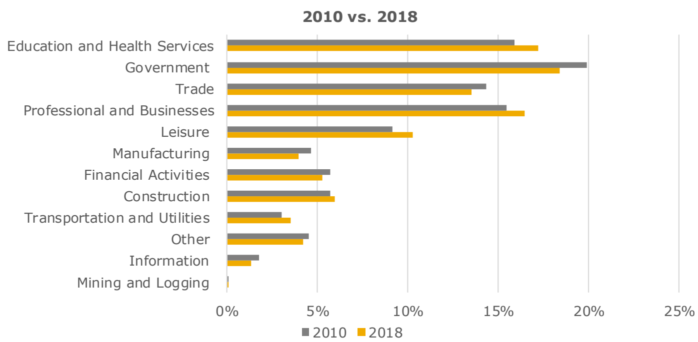



### Figure 18
**Virginia vs. United States**
**Employment by Sector**

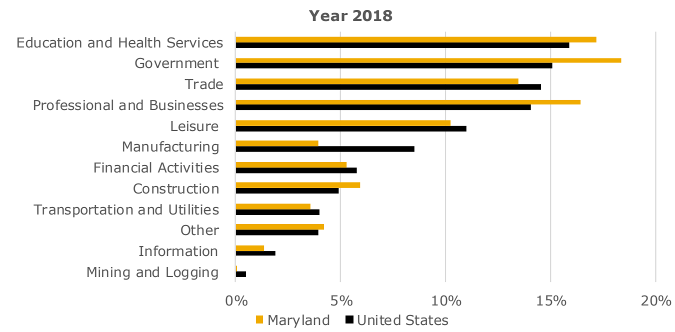



*Source: U.S. Bureau of Economic Analysis*

### Figure 19
**Maryland**
**Employment by Sector**




### Figure 20
**Maryland vs. United States**
**Employment by Sector**




*Source: U.S. Bureau of Economic Analysis*