

**Rating Action: Moody's upgrades WMATA's (DC) bonds to Aa3 from A2; outlook stable**

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New York, June 14, 2019 -- Moody's Investors Service has upgraded to Aa3 from A2 the rating on gross transit revenue bonds of the Washington Metropolitan Area Transit Authority, DC (WMATA). The outlook on the rating is revised to stable from positive.

**RATINGS RATIONALE**

The upgrade to Aa3 incorporates the strong operating environment of the authority, which itself is grounded in continued commitments from the District of Columbia (Aaa stable) and the states of Maryland (Aaa stable) and Virginia (Aaa stable) to financially support the transit enterprise. Subsidies from these governments now cover more than half of WMATA's annual operating costs, making them a critical resource to the authority that mitigates challenges posed by declining ridership. Despite the decline in ridership, which has moderated in pace, the underlying economic conditions of the authority's service area remain strong and will continue to enhance the capacity of the authority's governmental partners to provide support.

The upgrade also reflects improved internal liquidity, continued bank support through lines of credit, and greater certainty with regard to federal grant funding following the FTA's approval of the Washington Metrorail Safety Commission's Safety Oversight Program. The rating continues to reflect weak coverage of debt service by net operating revenue, though this is also mitigated by the role played by the state and local government subsidies. A key challenge factored into the rating is WMATA's heavy post-employment benefits burden. Unfunded pension and OPEB liabilities are high relative to the authority's revenue and will likely remain a source of rising expenses for years to come.

**RATING OUTLOOK**

The stable outlook reflects the strong financial support from the authority's state and local partners and the expectation that addressing outstanding capital needs will not place a substantial burden on WMATA's resources.

**FACTORS THAT COULD LEAD TO AN UPGRADE**

- Stabilized ridership that increases predictability of passenger fare revenue and enhances WMATA's operating flexibility
- Moderated pension and OPEB burdens coupled with capital improvement plan progress without a substantial increase in debt

**FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Diminished financial commitment from the authority's state and local government partners to WMATA's long-term operating and capital needs
- Budgetary imbalance that intensifies downward pressure on available liquidity
- Continued downward trend in ridership

**LEGAL SECURITY**

WMATA's gross transit revenue bonds are secured by gross revenues of the enterprise, which largely consists of passenger fares and operating subsidies from participating state and local jurisdictions.

**USE OF PROCEEDS**

Not applicable.

## PROFILE

WMATA operates the second largest heavy rail system and sixth largest bus system in the US. It serves the Washington DC metropolitan area, which is home to 6.2 million people.

## METHODOLOGY

The principal methodology used in these ratings was Mass Transit Enterprises Methodology published in December 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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