S&P Global Ratings

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Summary:

Washington Metropolitan Area Transit Authority; Appropriations

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Credit Profile		
US$392.0 mil dedicated rev bnds (Green Bonds - Climate Bond Certified) ser 2023A due 07/15/2049		
Long Term Rating	AA/Stable	New
Washington Metro Area Transit Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
Washington Metro Area Transit Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
Washington Metro Area Transit Auth APPROP (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to the Washington Metropolitan Area Transit Authority's (WMATA) series 2023A dedicated revenue bonds, totaling $392 million.
- S&P Global Ratings also affirmed its 'AA' rating on parity WMATA dedicated revenue bonds.
- The outlook is stable.

Security

Dedicated capital funding revenues annually appropriated by the State of Maryland, the Commonwealth of Virginia, and District of Columbia secure the bonds. The revenues identified by the three jurisdictions are defined within individual funding commitments to WMATA. However, each separate revenue source is not specifically pledged for debt service, only the amounts annually appropriated and then deposited into the WMATA revenue fund, after payment on WMATA's pre-2018 bonds if necessary, are pledged for debt service on these bonds. Once the dedicated capital funding revenues are deposited into the pledged revenue fund under the resolution, they must be used first for debt service.

Annual dedicated capital funding totals an estimated $470 million and consists of a minimum $178.5 million from a portion of the District of Columbia's sales tax revenues with a provision allowing for a 3% annual increase, $167 million from the Maryland Highway Trust Fund established to support the Maryland Department of Transportation, and nonrestricted funds derived from revenues of the Northern Virginia Transportation District (estimated at $124.5 million for fiscal 2023). The continued funding from all three jurisdictions is subject to appropriation, renewal of the grant funding agreements by jurisdictions, and WMATA continuing to meet various conditions while receiving the funding. Should one entity reduce or diminish its annual appropriation pursuant to its funding agreement, each of other entities has the right to reduce its annual appropriation proportionately.

Credit overview

The rating reflects our view of the weakest credit quality of the three dedicated revenue funding commitments on a joint and several basis as per our multiple revenue stream analysis because each revenue stream is necessary to pay debt service on the bonds. We analyzed each commitment under our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019), which incorporate the general credit quality, or general obligation (GO) rating, of the three jurisdictions and our view of the appropriation risk of each funding commitment. We currently rate the GO debt of Maryland (AAA/Stable), Virginia (AAA/Stable), and the District of Columbia (AA+/Stable).

When considering the three funding commitments, we assess each as having strong obligor involvement and strong political and administrative risks due to the governance structure of WMATA and the essentiality of WMATA's transit services to the three entities' economies. In our opinion, each of the three entities has a history of supporting WMATA's transportation capital projects. WMATA has 16 board members, made up of eight voting and eight alternates; and each of Maryland, Virginia, and the District of Columbia has two voting members and two alternates. The federal government, through the General Services Administration, also has two voting members and two alternates.

We view Virginia's intended payment source as weak due to miscellaneous narrow regional revenue sources of varying volatility dedicated to WMATA under the grant agreement and pledged to these bonds. The nonrestricted revenues dedicated to WMATA under the grant agreement and pledged to these bonds include:

- Local transportation funds in the annual amount of $27.12 million;
- A regional capital fee of 10 cents for every $100 of value on transfer or conveyance of property located within member cities and counties of the Northern Virginia Transportation Authority (estimated to generate $42.7 million);
- A 3% transient occupancy tax within cities or counties located in the Northern Virginia Transportation District (estimated to generate $26.8 million); and
- A wholesale fuel sales tax imposed and collected in the Northern Virginia Transportation District (estimated to generate $22.2 million).

Actual revenue collections and amounts are subject to economic conditions. For example, annual nonrestricted revenue across all sources totaled $115 million in fiscal 2021 and $117 million in fiscal 2022, which was short of an estimated annual $124.5 million due to weaker-than-expected transient occupancy taxes. Under the commonwealth's dedicated funding grant agreement, Virginia remits 1/12 of its annual nonrestricted account contributions monthly to the clearing agent. However, certain recordation and vehicle rental tax contributions that flow to a restricted revenue account are only available to fund capital and are not available for debt service on these bonds.

We view the District of Columbia's intended payment source from its broad, districtwide general operating sales tax revenue as moderate. Under the district's dedicated funding grant agreement, which is subject to renewal every six years, its funding commitment is an appropriation of $178.5 million from general sales tax collections, growing 3% annually. A 6% sales tax rate is levied on a broad base across the district's boundaries that generated almost $1.7 billion in fiscal 2022. While other obligations, including debt service on other existing bonds and general fund expenditures, are also paid from these revenues, we do not consider there to be any sizable competing claims. The district remits the annual grant semiannually to the clearing agent.

We view Maryland's intended payment source from its statewide transportation trust fund (TTF) as moderate. Under the state's dedicated funding grant agreement, Maryland appropriates an annual grant of at least $167 million from its TTF, consisting of various statewide transportation-related revenues used to finance the state's Department of Transportation and other entities. While the TTF also pays other obligations, including debt service on other existing bonds, we believe its annual receipts ($3.6 billion from all sources in fiscal 2022) are significant compared with the annual grant amount and sufficient to cover competing claims. Maryland remits quarterly grant payments to the clearing agent.

In our opinion, late-budget adoption risk is mitigated by timing of revenues remitted to the clearing agent, including the first quarterly grant payment by Maryland in July appropriated in the previous year, for debt service paid on July 15. The trustee transfers revenues from the pledged revenue fund to the debt service fund until sufficient amounts have been collected to equal the next debt service payment, before excess funds are distributed to WMATA for other capital projects.

Environmental, social, and governance

We believe overall environmental, governance, and social (ESG) risks for the dedicated revenue bonds are neutral in our credit rating analysis as reflected for each of the jurisdictions, Maryland, Virginia, and District of Columbia. Governance structure is not a current risk in our view, despite the multijurisdictional aspect and reciprocity provisions of the funding agreements. Although the region has experienced increased occurrences of extreme weather, we believe environmental risks are neutral as all three jurisdictions have implemented flood risk management and mitigation and resiliency initiatives.

Outlook

The stable outlook reflects our view of the strong relationship, long-term funding commitments, and ongoing essentiality of WMATA services in the region, as well as our stable outlooks on the District of Columbia, Maryland, and Virginia.

Downside scenario

The rating on the bonds is linked to the general creditworthiness of the District of Columbia, Maryland, and Virginia. While not expected, a downgrade or outlook change on any of these three jurisdictions could result in a lower rating on these bonds. Furthermore, if our assessment of the underlying appropriated revenues and dedicated capital funding sources to WMATA were to weaken, we could lower the rating. A change in our assessment would likely occur based on lack of willingness or political risk of future appropriations or diminishing strength of the underlying credit fundamentals of the three dedicated capital funding sources.

Upside scenario

The rating on the bonds is limited by our view of the weakest funding commitment of appropriated dedicated capital funding to WMATA based on our assessment of Virginia's and District of Columbia's funding commitments. While not expected, if our view of both Virginia's dedicated nonrestricted revenues to its WMATA capital fund and our assessment of the general creditworthiness of the District of Columbia improved, we could raise the rating on these bonds.

Credit Opinion

Flow of funds and structure

Within the bond resolution, WMATA has included a covenant that during the life of the bonds WMATA will direct each jurisdiction to pay its respective dedicated capital funding revenues to a clearing account agent into a clearing account before deposit with the trustee, and that revenues not be sent directly to WMATA. Revenues first received by the clearing agent are sent to the trustee and unconditionally obligated to pay for "pre-2018 bonds" and are not considered part of the trust estate securing these bonds. The pre-2018 bonds have a maximum annual debt service of $55 million and mature in fiscal 2042. Following maturity of the pre-2018 bonds, dedicated revenues would flow straight to the trustee from the clearing agent. The pre-2018 obligations also carry a gross revenue pledge and receive payments from the participating jurisdictions under separate capital funding agreements and are not solely intended to be paid by dedicated capital funding under the grant agreements.

Pursuant to the terms of the bond resolution, WMATA is prohibited from creating a lien on dedicated capital revenues that is superior to the pledge that secures these dedicated revenue bonds with the exception of the claim that exists for the pre-2018 bonds. However, WMATA might incur additional parity debt, provided that certain conditions set forth in the bond resolution are satisfied. These bonds have an additional bonds test (ABT) of 4x coverage on dedicated capital funding bonds and would exclude pre-2018 obligations in the ABT calculation to the extent WMATA's gross revenues are available to pay debt service on the series 2017A-B bonds. If gross revenues are insufficient to cover debt service on the pre-2018 bonds, dedicated capital funding would first be used to pay debt service before flowing to the dedicated capital funding bonds. We calculate fiscal 2022 dedicated revenue available for the pledge to the bonds covers maximum annual pre-2018 obligations and pro forma dedicated revenue bond debt service by 2.7x.

WMATA was established by Congress under an interstate compact and no single state's statutes govern the authority, making it ineligible to file for Chapter 9 bankruptcy. In our opinion, the inability to file for bankruptcy protection and the direction of revenues from each jurisdiction to the clearing agent and then to the trustee mitigate direct operating risk from WMATA. However, ongoing receipt of dedicated revenue and operating subsidies from each of the jurisdictions are also contingent on WMATA meeting various conditions while receiving the funding.

Overview of participating jurisdictions

We consider Maryland to have very strong general creditworthiness; such factors included in our assessment are the state's fundamental economic strengths of strong wealth and income indicators and a relatively diversified base. Despite some recent economic deceleration, Maryland has been able to maintain budgetary balance. The unprecedented federal stimulus, coupled with state measures in response to the COVID-19 pandemic, has had a larger positive impact on state tax revenues than initially anticipated. Better-than-expected general fund revenues have contributed to a good reserve position and cash balances. For more information, see our full analysis on Maryland, published May 31, 2022, on RatingsDirect.

We consider Virginia to have very strong general creditworthiness; such factors included in our assessment are the state's good cash and liquidity position, strong financial management, a relatively stable and diverse economy, a long history of proactive and conservative financial management, and moderate debt levels we expect will remain manageable. The commonwealth's practice of fully funding pension payments and directing certain deposits to an additional revenue reserve fund should, in our view, continue to position Virginia for unexpected economic slowdowns or shortfalls. We expect it will continue to adopt conservative assumptions for future revenue growth and make timely budget adjustments as necessary for structural balance if projected revenue growth fails to materialize. For more information, see our full analysis on Virginia, published Jan. 6, 2023.

We consider the District of Columbia to have strong general creditworthiness, such factors included in our assessment are its robust economy, which serves as the anchor for a broad and diverse metropolitan statistical area (MSA); a very strong management environment, with a comprehensive set of formalized financial policies and practices; and historically strong financial performance, including operating surpluses each year over the last decade resulting in significant increases to available reserves to a level we consider very strong. Somewhat mitigating these factors, in our view, is the District of Columbia's lack of complete budget autonomy given that the district's federally funded and locally funded budgets are subject to Congressional review, although we note that review of the locally funded budget is through a passive 30-day period without the need for Congress approval. For more information, see our summary analysis on the District of Columbia, published Nov. 3, 2021.

Overview of WMATA

WMATA is responsible for developing, financing, and operating mass transit facilities in the Washington, D.C., MSA. This includes a heavy rail (Metrorail), bus (Metrobus), and paratransit (MetroAccess) system. The authority is an agency and instrumentality of the Commonwealth of Virginia, the State of Maryland, and the District of Columbia, and depends on these governments and the local jurisdictions, in addition to farebox revenue and other operating revenue, for financial support. Because of the effects of the pandemic and how and where people work, ridership levels and fare revenue are depressed and could remain weak due to increased remote work and hybrid work assignments. An ongoing projected structural imbalance in transit operations could result in a lower rating on WMATA's gross revenue bonds, currently rated 'AA-,' with a negative outlook.

For more information, see our summary analysis on WMATA, published Sept. 28, 2022, and our commentary, "U.S Transportation Infrastructure Transit Sector Update and Medians: Long-Term Funding Decisions Loom for Many Mass Transit Operators," published Sept. 8, 2022.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022