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Summary:

Washington Metropolitan Area Transit Authority; Appropriations

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Credit Profile		
US$545.0 mil dedicated rev bnds ser 2020A due 07/15/2025		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings has assigned its 'AA' rating to the Washington Metropolitan Area Transit Authority's (WMATA) series 2020A dedicated revenue bonds. The outlook is stable.

The series 2020A bonds total approximately $545 million and are the inaugural series of dedicated revenue bonds issued by the authority. The bonds are being issued pursuant to a resolution adopted April 23, 2020 by WMATA.

The bonds are secured by dedicated capital funding revenues annually appropriated by the State of Maryland, the Commonwealth of Virginia, and District of Columbia. 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. Revenues deposited into the fund must first be used for debt service.

The rating reflects the weakest credit quality of the three revenue sources based on our assessment of each revenue source on a joint and several basis as 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 on RatingsDirect), which incorporate the general credit quality, or general obligation (GO) rating, of the three jurisdictions and the appropriation risk of each. We currently rate the GO debt of Maryland 'AAA/Stable', Virginia 'AAA/Stable', and the District of Columbia 'AA+/Stable'.

Credit overview

Annual dedicated capital funding totals $470 million and consists of a minimum $178.5 million from a portion of the District of Columbia's sales tax revenues increasing 3% annually, $167 million from the state of Maryland Highway Trust Fund established to support the Maryland Department of Transportation, and approximately $124.5 million of nonrestricted funds derived from revenues of the commonwealth of Virginia's Northern Virginia Transportation District. The continued funding from all three jurisdictions is subject to appropriation 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 other entity has the right to reduce its annual appropriation proportionately.

Under the flow of funds, dedicated capital funding is appropriated annually by the three jurisdictions to WMATA. 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 directly to a clearing account agent for deposit into a clearing account with the trustee, and that revenues not be sent directly to WMATA. The authority 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 operating risk.

When considering the three funding commitments, we consider each to have strong obligor involvement and strong political and administrative risks due to the governance structure of WMATA and the essentiality of the authority to the economies of the three entities. WMATA has 16 board members, eight voting and eight alternates with Maryland, Virginia, and the District each having two voting members and two alternates, and the federal government through the General Services Administration having two voting members and two alternates. In our opinion, each of the three entities has a history of supporting the transportation capital projects of WMATA.

We view the District of Columbia's intended payment source as moderate. Its funding commitment is an appropriation of $178.5 million from general sales tax collections, growing 3% annually. Payments are remitted semi-annually to the clearing agent. A 6% rate is levied within the district's boundaries that generated $1.7 billion in 2019. While other obligations, including debt service and general fund expenditures, are paid from these revenues, we do not consider there to be any sizable completing claims.

We view Maryland's intended payment source as moderate. The state's funding is a $167 million appropriation from its Highway Trust Fund and not from general revenues. Payments are remitted quarterly to the clearing agent. The fund consists of various transportation-related revenues used to finance the state's Department of Transportation and other entities and totals approximately $3 billion. While other obligations, including debt service, are paid from the fund, we do not consider there to be any sizable competing claims.

We view Virginia's intended payment source as weak. Virginia has created a WMATA capital fund where nonrestricted and restricted revenues are deposited into separate accounts. Payments are then remitted monthly to the clearing agent. Restricted revenues are only for capital and not debt service, and are therefore not considered part of pledged revenues. The nonrestricted revenues appropriated into the state's capital fund include local transportation funds of $27.12 million, a regional transportation improvement fee of $0.15/100 on realty located in the Transit Zone (estimated at $44.9 million), a transient occupancy tax of 2% on hotel rooms in the Transit Zone (estimated at $29.7 million), and a wholesale fuel sales tax of one-twelfth of funds paid to the Northern Virginia Transportation Commission (estimated at $22.3 million). While the transit area has strong underlying credit fundamentals and economic metrics, the differing stability of nonrestricted revenue sources and the limited base make this weaker than broad statewide taxes. However, the state does maintain excess revenues in the capital fund and is unable to divert them to its general fund.

In our opinion, late-budget adoption risk is mitigated by the timing difference of each revenue source and that revenues are appropriated in the prior year for debt service paid on July 15. The trustee collects revenues in the debt service until sufficient revenues have been collected to 100% of debt service and 50% of principal on a semi-annual basis, before excess funds are distributed to WMATA for other capital projects.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. S&P Global Ratings considers health and safety a social risk under our view of environmental, social, and governance (ESG) factors. We analyzed WMATA's ESG risks relative to its market position, management and governance, and financial performance, and determined that all are in line with our view of the sector standard. However, WMATA is exposed to health and safety social risks that could present financial pressures in the short term from the COVID-19 outbreak, particularly if activity levels, and farebox revenues continue to significantly deteriorate and remain at lower levels. We will continue to evaluate these risks as the situation evolves.

Stable Outlook

Generally, our rating outlook timeframe is up to two years. Given the current uncertainty around the pandemic, our view of the credit risks to the appropriation obligations of the three entities centers on the more immediate budget effects in 2020 and are subject to change. We currently maintain a stable outlook on the District of Columbia, State of Maryland, and Commonwealth of Virginia.

Downside scenario

The rating on the bonds is linked to the general creditworthiness of the District of Columbia, Maryland, and Virginia. A rating or outlook change on either of these three jurisdictions may result in a lower rating on these bonds. Furthermore, if our assessment of the underlying appropriated revenues to WMATA were to weaken, on any of the dedicated capital funding sources, it may also result in a lower 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 pledge of appropriated dedicated capital funding to WMATA. Our assessment of the limited nature of Virginia's dedicated nonrestricted revenues to its WMATA capital fund would need to improve for the bonds to receive a higher rating, along with an improvement of the general creditworthiness of the District of Columbia.

Credit Opinion

Flow of funds and structure

Dedicated capital funding revenues are first sent to the clearing agent and are not considered part of the trust estate securing the bonds. Revenues first received by the clearing agent are unconditionally obligated to pay for "pre-2018 bonds." The pre-2018 bonds have a maximum annual debt service (MADS) of $55 million and mature in fiscal 2042. Following maturity of the pre-2018 bonds, dedicated revenues would flow directly from the clearing agent to the trustee. The pre-2018 obligations also carry a gross revenue pledge and are not solely intended to be paid by dedicated capital funding.

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 the series 2020A bonds with the exception of the claim that exists for the pre-2018 bonds. However, the authority may incur additional parity indebtedness, provided that certain conditions set forth in the bond resolution are satisfied. The series 2020A 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.

Overview of participating jurisdictions

The three revenue sources are subject to macro and micro economic conditions. Given the current uncertainty around the pandemic, our view of the credit risks to the appropriation obligations are subject to change at any time. For more information on the potential effects of the COVID-19 pandemic on state and local credit conditions, please see "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions" (published on April 2, 2020), and "All U.S. Public Finance Sector Outlooks Are Now Negative" (published on April 1, 2020), both on RatingsDirect.

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, it has been able to maintain budgetary balance and was expected to increase its general fund cash balance to $1.6 billion at the end of fiscal 2020. Outside of potential budgetary pressures, the state's long-term debt and other postemployment benefit (OPEB) liabilities weigh on the rating as debt ratios may increase during a time of decelerating economic growth. For more information see our full analysis on Maryland, published Feb. 24, 2020.

We consider Virginia to have very strong general creditworthiness; such factors included in our assessment are the state's strong and diverse economy, strong financial policies and practices, and long history of proactive and conservative financial management. We expect moderate debt levels to be maintained based on the commonwealth's debt capacity model. In the long term, we see the potential for slower economic and revenue growth against rising Medicaid costs as posing credit risk for the state and broader U.S. state sector. For more information see our full analysis on Virginia, published Feb. 26, 2020.

We consider the District of Columbia to have strong general creditworthiness, such factors included in our assessment are its very strong economy, of which it serves as the anchor for a broad and diverse MSA, very strong management environment, and strong budgetary performance and flexibility. Mitigating these factors, in our view, is the district's lack of complete budget autonomy because its federally and locally funded budget are subject to Congressional review. For more information, see our full analysis on the District, published July 3, 2018.

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. The system has experienced declining ridership trends in recent years: It had ridership of 287 million trips in fiscal 2019, which was down 0.6% from fiscal 2018. WMATA is the primary transit provider in the region, representing about 83% of all transit trips, according to management.

As a result of the effects of COVID-19, ridership levels are down significantly and we expect them to remain at these significantly lower levels in the near term. The effects of the ongoing severe decline will largely depend on the duration of the outbreak, local requirements for shelter-in-place or social distancing, and potential shifting behavioral trends for mass transit in the near term. Nonetheless, we still consider WMATA's market position adequate.

For more information, see our summary analysis on WMATA, published Dec. 11, 2019 and our March 25, 2020 commentary, "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic."