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Ratings

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Summary:

Washington Metropolitan Area Transit Authority; Transit

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Summary:

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Credit Profile		
US$496.5 mil gross rev transit bnds ser 2017B due 07/01/2043		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating and underlying rating (SPUR) to Washington Metropolitan Area Transit Authority (WMATA), D.C.'s $496.5 million gross revenue transit bonds series 2017B. The outlook is stable.

The ratings reflect our view of WMATA's:

- Very low industry risk, with low cyclicality and volatility of earnings during economic cycles, and very low competition;
- Extremely strong economic fundamentals, with high per capita income and good growth in population and employment;
- Very strong financial flexibility, with a farebox recovery ratio of approximately 48%; and
- Very strong liquidity levels, although unrestricted cash without access to external liquidity and lines of credit would be considered only adequate.

These strengths are partially offset by the authority's:

- Adequate market position, due to falling ridership in recent years with projected further declines;
- History of fluctuating debt service coverage (DSC; S&P Global Ratings-calculated); and
- Large capital plans with further debt issuances planned in the near term that could pressure coverage without additional revenue enhancement.

Bond proceeds will finance capital costs, pay capitalized interest, and pay issuance costs.

Securing the bonds are the authority's gross revenues, including operating revenue (exclusive of lease revenue); each jurisdiction's operating subsidy, known as the stable and reliable funding sources; and all other lawfully pledged revenues. Capital contributions from participating jurisdictions are not pledged. The bonds do not have a debt service reserve fund. Under the resolution, WMATA has covenanted to fix and establish transit system fees together, with jurisdictional subsidies and proceeds from bonds, notes, or other obligations such that the resulting amount pays all debt service (including related parity debt and subordinated debt or contract obligations) and transit system operating costs.

The authority's debt-to-net revenues in 2016 was 22.9x, although we expect it to decline to 11.9x in 2018. Debt-to-total revenues was 0.27x in 2016; we expect it to be flat for 2017 and increase to 0.54x in 2018. The six-year capital improvement plan (CIP) for 2018-2023 totals approximately $7.2 billion in projects. The sources of funding in the CIP include $550 million in additional debt. Overall, we view WMATA's debt burden as low.

For more information on the authority, see the analysis published June 16, 2017, on RatingsDirect.

Outlook

The stable outlook over reflects our expectation that WMATA will set fares and manage expenses to maintain near 1x DSC over the next two years.

Upside scenario

Although unlikely, sustained increases in ridership could strengthen the authority's market position and lead us to raise the rating.

Downside scenario

If WMATA's liquidity position were to materially erode or if systemwide operating performance experienced significant additional challenges, we could lower the rating. We could also lower the rating to the extent that the authority's debt burden increases significantly.