MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades 17 GARVEE ratings vulnerable to potential federal payment interruptions; outlook remains negative

Global Credit Research - 18 Feb 2014

Action affects about $6 billion in outstanding debt

New York, February 18, 2014 -- Moody's Investors Service has downgraded 17 standalone GARVEE bond ratings by one notch. The action affects 16 ratings of GARVEEs secured solely by a pledge of federal highway aid and 1 rating of mass transit aid GARVEEs. Most of the ratings were downgraded to A1 from Aa3, with three ratings downgraded to A2 from A1. For a complete list of the ratings affected by this action, please see the end of the report.

SUMMARY RATING RATIONALE

The downgrades reflect changes in federal liquidity management which increase the risk of interruption of timely payments of federal transportation aid due to states and transit entities. These include the government's recurring episodes of threatened debt ceiling expirations, government shutdowns, and the threat of depletion of the highway trust fund balance later this year due to the fund's persistent structural imbalance.

The downgrades affect GARVEE bonds that are "standalone" (those without additional pledged revenues securing the bonds) and lack traditional structural protections against liquidity risk, such as cash-funded debt service reserve funds, or legal covenants to set aside debt service payments well in advance of payment dates. No action has been taken on GARVEE bonds with pledged revenues in addition to the federal revenues or standalone GARVEE bonds with legal structural protections against liquidity risk.

STRENGTHS

-- Transportation infrastructure is essential to economic functioning of the US economy

-- Long history of uninterrupted flow of federal funds to states and, to a lesser degree, mass transit agencies

-- Strong leverage constraints and debt service coverage ratios for stand-alone highway GARVEEs; moderate leverage constraints and debt service coverage ratios for mass transit

GARVEEs

--Strong management of cash flow and federal reimbursement process by transportation agencies and FHWA

CHALLENGES

-- Increased need for liquidity protections given new risks of timely federal payments and reimbursements to states and transit entities

-- Large structural imbalance between federal fuel tax revenues and authorized federal transportation spending necessitates general fund support, which has become less reliable in light of federal budgetary pressure

-- Shorter two-year duration of current transportation reauthorization compared to prior ones increases likelihood of future changes to the program with potential negative effect on amount and timing of funds available for debt service

-- Lack of federal obligation to continue the federal aid highway program; nothing prevents the federal government from making programmatic changes detrimental to bondholders

AFFECTED ISSUERS

TO A1 FROM Aa3:

California Department of Transportation (Federal Highway Grant Anticipation Bonds)

District of Columbia (Federal Highway Grant Anticipation Revenue Bonds) Series 2012

Georgia State Road and Tollway Authority (Federal Highway Grant Anticipation Revenue Bonds)

Idaho Housing and Finance Association (Grant and Revenue Anticipation Bonds Federal Highway Trust Fund)

Kentucky Asset/Liability Commission (Project Notes, Federal Highway Trust Fund)

Maine Municipal Bond Bank (Grant Anticipation Bonds)

Michigan (Grant Anticipation Bonds - 2009 series)

Montana Department of Transportation (Grant Anticipation Notes)

New Hampshire (Federal Highway Grant Anticipation Bonds)

North Carolina (Grant Anticipation Revenue Vehicle Bonds)

Oklahoma Department of Transportation (Grant Anticipation Notes)

Rhode Island Economic Development Corporation (Grant Anticipation Bonds)

Washington (Grant Anticipation Revenue Bonds)

West Virginia Commissioner of Highways (Surface Transportation Improvements Special Obligation Notes)

TO A2 FROM A1

Michigan (Grant Anticipation Bonds - 2007 series)

New Jersey Transportation Trust Fund Authority (Grant Anticipation Bonds)

New Jersey Transit Corporation (Senior Master Lease Certificates of Participation)

OUTLOOK

The negative outlook on the standalone GARVEE bond ratings reflects continuing uncertainty surrounding future level and structure of federal transportation funding. Authorization for MAP-21 expires September 30, 2014 and the balances in the HTF may be depleted earlier barring congressional action.

WHAT COULD CHANGE THE RATINGS UP

-- Significant and sustained increase in Highway Trust Fund revenues not dependent on periodic and uncertain general fund support combined with longer reauthorization periods

-- Enhancements of individual transactions' legal protections against liquidity risk related to timing of federal reimbursements

WHAT COULD CHANGE THE RATINGS DOWN

-- Discontinuation or significant reduction in federal transportation grant program

-- Our expectation that there will be a lapse in reauthorization of federal transportation spending

-- Federal action or inaction that results in interrupted cash flows to states

-- Sharp decline in underlying HTF revenues caused by economic stress, tax inefficiency or redirection of fuel taxes to general fund

--Individual GARVEE ratings could go down if further leveraging materially reduces coverage of maximum annual debt service

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March

2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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