MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns A2 to West Virginia Commissioner of Highways' $220M GARVEEs, Series 2017A; Outlook Stable

Global Credit Research - 10 Oct 2017

New York, October 10, 2017 -- Issue: Surface Transportation Improvements Special Obligation Notes, Series 2017A; Rating: A2; Rating Type: Underlying LT; Sale Amount: $219,745,000; Expected Sale Date: 10/17/2017; Rating Description: Special Tax: Transportation-Related;

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to West Virginia's $219.7 million Surface Transportation Improvements Special Obligation Notes, Series 2017A (Grant Anticipation Revenue Vehicles or "GARVEEs") to be issued by the West Virginia Commissioner of Highways. The outlook is stable. The A2 rating reflects the pledge of eligible federal highway aid received by the West Virginia Department of Transportation, which provides strong estimated coverage of 12.6 times maximum annual debt service (MADS). The rating also reflects the recent stable pledged revenue trend and a strong additional bonds test of 3.0 times. These strengths are balanced by the federal reauthorization risk of the pledged revenue stream. This risk is mitigated by the state's willingness to use other funds in the event of federal revenue disruption.

Rating Outlook

The rating outlook for the notes is stable based on the reauthorization of the federal aid highway program through federal fiscal year 2020 via the Fixing America's Surface Transportation (FAST) Act. The rating and outlook already incorporate the possibility of an interruption in grants provided it does not affect debt service.

Factors that Could Lead to an Upgrade

Enhancement of the bond indenture protections against federal payment disruption risk

A return to multi-year authorizations or the addition of a sustainable dedicated revenue source for the federal HTF

Factors that Could Lead to a Downgrade

A change in federal transportation policy that reduces or interrupts highway aid

Lengthening of maturity that increases exposure to reauthorization risk

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

Significant additional leverage that reduces coverage materially

Legal Security

The bonds are limited obligations of the state, payable solely from eligible federal highway funds received from the Federal Highway Administration, not subject to annual appropriation by the state legislature. The FHWA processes the grants out of revenues from the federal Highway Trust Fund, which is funded by federal fuel taxes and, in recent years, transfers from the federal general fund.These securities are "direct" GARVEEs, meaning that the FHWA has agreed in a memorandum of understanding with the state to make payments for principal and interest costs associated with specific approved projects.Projects to be financed will be authorized, budgeted, and obligated as advance construction debt service projects by the FHWA, and will be eligible for obligation each year in accord with the normal federal program requirements and procedures. At the beginning of each federal fiscal year (FFY), the West Virginia Division of Highways (an agency of the state Department of Transportation) will convert the amount of advance construction funds necessary to pay the debt service costs for each of the debt service projects. The conversion of the advance construction must be the first obligation in that fiscal year of funds legally available for that purpose. The Division of Highways will bill the FHWA for debt service costs seven days prior to the date the payment is due to the trustee. These funds

will then be paid from the FHWA to the trustee at least four days prior to the debt service due date. The division is not obligated to use other state funds in the event that sufficient funds are not on deposit in the bond payment fund prior to the payment date, although the indenture allows for the state to make payment from other resources, being reimbursed by subsequent federal payments.

Use of Proceeds

The Series 2017A bonds will finance interstate reconstruction, bridge replacements, and road repair projects across the state.

Obligor Profile

The State of West Virginia has a population of 1.83 million people and a gross state product of approximately $73 billion. The state has relatively low industrial diversity, above-average concentration in the natural resource industry and relatively low wealth levels.The West Virginia Division of Highways is an agency of the state's Department of Transportation and is responsible for nearly 39,000 miles of roadways across the state, as well as nearly 7,000 bridges. It is the sixth-largest state maintained roadway system, assuming the responsibility of roadway construction and maintenance from counties.

Methodology

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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