

# RatingsDirect®

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## Summary:

# State of Washington; Federal or State Grant Programs

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### Credit Profile

US\$119.0 mil federal hwy grant antic rev rfdg bnds (GARVEE) (Senior 520 Corridor Prog) ser R-2022E due 09/01/2024		
<i>Long Term Rating</i>	AA/Stable	New
Washington Federal or State Grant Prog		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the State of Washington's \$119 million series R-2022E federal highway grant anticipation revenue (GARVEE) refunding bonds. At the same time, we affirmed our 'AA' long term rating on the state's GARVEE bonds outstanding. The outlook on all ratings is stable.

All federal highway revenues that the state receives under the Federal-Aid Highway Program (FAHP) administered by the Federal Highway Administration (FHWA) are pledged to the payment of the bonds.

Bond proceeds will be used, depending on market conditions, to carry out a current refunding of all or a portion of the series 2012F bonds and to pay costs of issuance. The refunding transaction does not extend maturities; the state's GARVEE bonds have a final maturity of Sept. 1, 2024.

### Credit overview

Our analysis of all GARVEE bonds assumes that the supportive legislative framework and Congressional appropriations funding transportation grant programs will continue through the enactment of multiyear authorizations or continuing temporary extensions. We base this assumption on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire. We note Washington's GARVEE bonds, including the series R-2022E refunding bonds, are expected to mature well before the FAHP reauthorization expires on Sept. 30, 2026. Consequently, we believe reauthorization risk is currently mitigated for the state's GARVEE bonds, barring the issuance of additional debt, which management does not expect at this time.

The rating also reflects our opinion of the following credit strengths:

- Strong maximum annual debt service (MADS) coverage of the bonds at 7.4x based on the federal fiscal 2021 obligation authority (OA), along with essentially level annual debt service requirements;
- A memorandum of understanding (MOU) between the state and FHWA that approves the use of federal aid for debt service;

- Good bond provisions, including a sound additional bonds test requiring the eligible OA the state received in one of the two most recent federal fiscal years to be 3.50x MADS on existing and proposed bonds, as well as a more restrictive state policy that includes a 3.75x multiple for additional debt; and
- Generally positive trends in OA and receipts of Title 23 federal aid money, as well as the state's track record of maximizing federal grants and effectively managing the grant reimbursement process.

In our view, partially offsetting the preceding credit strengths is the narrow pledge of federal transportation funds to the state, combined with a possible drop in revenues resulting from a decline in funds from the Highway Trust Fund (HTF) or in Congress-appropriated amounts, or changes to the FAHP.

The stable outlook reflects our expectation that we will not raise or lower the rating over our two-year horizon. Specifically, we expect that the long-standing FAHP will continue to receive significant funding and that Washington will receive its historical share of annual Title 23 distributions. The outlook also reflects our expectation that federal reimbursement revenue will continue to provide strong debt service coverage on the state's GARVEE debt.

## **Stable Outlook**

### **Upside scenario**

While unlikely, we could raise the GARVEE rating if we also raise the U.S. debt rating and we believe Washington's coverage based on pro forma MADS is projected to remain strong.

### **Downside scenario**

If we lower the U.S. debt rating or revise the outlook to negative, we would take a similar rating action on the GARVEE debt. Although unexpected, a significant decline in coverage based on pro forma MADS could also lead to a negative rating action.

## **Credit Opinion**

MADS coverage of the state's GARVEE bonds is strong, in our view, at 7.4x based on federal fiscal 2021 OA of \$751.6 million. MADS is approximately \$102 million; debt service is generally level. Officials report the state has no additional debt plans which we expect will keep coverage levels strong even if federal receipts were to decline somewhat. We view the bond provisions as strong for a stand-alone GARVEE structure; these include a supportive legal framework provided by the enabling legislation, the MOU, and a master bond resolution.

OA (including redistributions) has risen nearly 20% over the past decade. Although OA levels declined in some years, annual growth averaged 2.5% per year from 2012 to 2021. Specifically, OA reached \$751.6 million in federal fiscal 2021, \$764.0 million in federal fiscal 2020, and \$714.6 million in federal fiscal 2019. Actual reimbursements were \$763.7 million in federal fiscal 2021, \$640.1 million in federal fiscal 2020, and \$748.4 million in federal fiscal 2019.

The most recent highway transportation legislation, the Infrastructure Investment and Jobs Act (IIJA), was signed into law on Nov. 15, 2021. The act, which federal agencies refer to as the Bipartisan Infrastructure Law, contains a five-year surface transportation reauthorization through 2026 that replaces the Fixing America's Surface Transportation (FAST)

Act, which expired on Dec. 3, 2021. We believe the IIJA generally supports the sector's credit quality, given a longer period of funding certainty and increased funding. The multiyear legislation will provide approximately \$304 billion for highways and \$93 billion for public transportation, among other funding. This is an approximately 32% increase over five years compared with the \$230 billion authorized for highways under the FAST Act. For more information on the impact of the IIJA for GARVEE bonds, please see "Infrastructure Law Paves The Way For Transportation GARVEE Bonds' Federal Support And A Stable Sector View," published Dec. 7, 2021, on RatingsDirect.

Our ratings in this sector range from 'A-' to 'AA' where only federal funding is pledged and as high as 'AAA' where state agencies blend the federal funding with an additional pledge of state funding. We base the relatively strong ratings in this sector on the issuer's pledge of HTF grants from the federal government. The IIJA's signing confirms our view of widespread Congressional support for preserving and expanding the national highway system. States and local transportation agencies that receive distributions from the HTF can confidently move forward with complex multiyear transportation projects because the near-term questions surrounding federal funding no longer loom. Nevertheless, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars because of either lower authorized or appropriated levels or programmatic changes that negatively affect recipients. We will monitor the sector to evaluate how each individual state issuer might adjust its debt or capital spending plans.

Although reauthorization risk cannot be eliminated for most GARVEE credits, it has been minimized through conservative financial structures inherent in all rated GARVEE transactions, which have resulted in the relatively high ratings on these transactions. This includes the use of backup credit support, debt service reserves, robust DSC levels, shorter final maturities, and restrictive additional debt provisions. In addition, many qualitative credit factors influence the rating, such as funding mechanics and timing, evaluation of state processes for managing and administering the program, history of federal receipts and volatility, each state's donor status, underlying economy, transportation needs, and each state's political representation and congressional influence.

In addition to applying our "Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations" criteria (published May 29, 2009), we are applying our "Federal Future Flow Securitization" criteria (published March 17, 2017) to determine the highest possible rating relative to the U.S. debt rating because Washington's GARVEE bonds are solely secured by federal aid cash flows. Our application of such criteria on Washington's GARVEE program resulted in an overall score of '1.1.', indicating that the highest possible rating is 'AA', one notch below the U.S. debt rating.

## **Related Research**

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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