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Fitch Places 7 State Dedicated Tax Ratings on Negative Watch on Criteria Change

Fitch Ratings-New York/Bogota-04 April 2018: Fitch Ratings has placed the following ratings on Rating Watch Negative following Fitch's April 3, 2018 release of revised criteria for rating U.S. state dedicated tax bonds:

–State of Illinois Build Illinois senior and junior lien sales tax revenue bonds 'AA+';
–Arizona School Facilities Board state school improvement revenue bonds 'AAA';
–Pennsylvania Turnpike Commission (PTC) oil franchise tax senior revenue bonds 'AA';
–Pennsylvania Turnpike Commission registration fee revenue bonds 'AA-';
–Port Authority of Allegheny County, PA (PAAC) special revenue transportation bonds 'AA';
–Southeastern Pennsylvania Transportation Authority (SEPTA) revenue bonds 'AA'.

With the annual update to its "U.S. Public Finance Tax-Supported Rating Criteria", Fitch specified more limited situations in which a state dedicated tax security can be rated without regard to the state's general credit quality. Additionally, the revised criteria now include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state's Issuer Default Rating (IDR), can nonetheless be treated as stronger than but still linked to the state's general credit risk. In these cases, Fitch will limit the rating on most state dedicated tax securities to no more than three notches above the state's IDR.

For more information on the revised criteria, see "Fitch Releases Revised U.S. Public Finance Tax-Supported Rating Criteria" dated April 3, 2018 and available at www.fitchratings.com.

KEY RATING DRIVERS
CHANGE IN CRITERIA: The Rating Watches are being assigned to all state dedicated tax bond securities that historically have been rated above and without regard to the state's IDR but do not meet Fitch's revised criteria for rating without regard to the credit quality of the state.

RATINGS LIMITED TO THREE NOTCHES ABOVE STATE IDR: Fitch will review the credits to determine the extent of notching above the state IDR allowable under the new criteria. Except for the Build Illinois bonds, all of the securities being placed on Watch are rated within three notches of Fitch's assessment of the related state's general credit quality and could be affirmed following committee review under the revised criteria.

KEY NOTCHING CONSIDERATIONS: Under the revised criteria, the degree of allowable notching above the state's IDR, for those credits that do not meet Fitch's requirements for rating without regard to the state's IDR, is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the better).

LOCAL GOVERNMENT ANALYSIS NOT AFFECTED: Only dedicated tax bonds of U.S. states are being placed on Watch. Fitch's approach to rating dedicated tax bonds issued by U.S. local governments was unchanged in the revised criteria. Bankruptcy risk to local governments generally precludes dedicated tax bonds issued by that government from being rated higher than the entity's IDR, regardless of the strength of the security. Fitch's criteria detail four exceptions where a dedicated tax bond rating above the IDR is possible.

RATING SENSITIVITIES

RATING CHANGES RESOLVED WITHIN SIXTY DAYS: Fitch expects to resolve the Rating Watches within 60 days of this release.

SECURITY

BUILD ILLINOIS: Build Illinois bonds have a first and prior claim on the state share of the 6.25% unified sales tax and a first lien on revenues deposited into the Build Illinois Bond Retirement and Interest Fund (BIBRI). Debt service payments on the junior obligation bonds are subordinate to outstanding senior lien debt service.

ARIZONA SCHOOL FACILITIES BOARD: The bonds are payable from and have a first lien on a 0.6% voter-authorized addition to the state-wide transaction privilege and use (sales) tax.

PTC OIL FRANCHISE TAX: The bonds are limited obligations of the PTC, payable from an allocation of a portion of the commonwealth's OFT. The commonwealth legislature made the allocation with Act 26 of 1991, designating 14% of 55 mills of the OFT to the PTC as a continuing appropriation. The statute includes the commonwealth's covenant not to limit or alter the PTC's rights to the allocation.

PTC REGISTRATION FEE: The bonds are secured solely by an annual allocation of the first $28 million of Act 3 revenues (vehicle registration revenues), payable each fiscal year to the PTC.

PAAC and SEPTA SPECIAL REVENUE BONDS: The bonds are limited obligations of each authority payable from the authority's allocation of revenues, not subject to appropriation, derived from various Commonwealth of Pennsylvania fees and taxes levied statewide. The allocated revenues are deposited into the Public Transportation Assistance Fund with the authority's share then transferred directly to the bond trustee.

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