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Fitch Affirms U.S. Municipal Standalone GARVEE Ratings.

Fitch Ratings – New York – 19 May 2021: Fitch Ratings has affirmed the ratings for the following standalone grant anticipation revenue vehicle (GARVEE) bonds:

–Florida Department of Transportation (FL) at 'A+';

–Georgia State Road and Tollway Authority at 'A+';

–Idaho Housing and Finance Association at 'A+';

–Kentucky Asset Liability Commission at 'A+';

–Maine Municipal Bond Bank at 'A+';

–State of North Carolina at 'A+';

–State of Ohio at 'A+'.

The Rating Outlook on all of the bonds is Stable.

Fitch Ratings also affirmed the ratings for the New Jersey Transportation Trust Fund Authority's (NJTTFA) GARVEE bonds at 'BBB+'. The Outlook on NJTTFA's bonds remains Negative.

RATING RATIONALE
Ratings for standalone GARVEE bonds are derived in large part from the nature of the federal surface transportation funding program (the program). While there is a projected shortfall in the current revenue generating ability of the program when compared with expected outlays, there has traditionally been a short- to medium-term legislative solution to meet funding needs. The program has proven to be an essential investment for the federal government with funding disseminated in a formulaic nature across states. The ratings further reflect the broad revenue pledge of all of the Department of Transportation's (DOT) or Transit Agency's federal receipts and leverage covenants that help to mitigate the risk of diminished federal transportation receipts. To a lesser extent, the ratings also consider other resources and financial flexibility available to specific DOTs or Transit Agencies that provide financial cushion to the extent there is a delay in federal funding. In instances where state appropriation policies may affect the distribution of federally received funds, standalone GARVEE ratings are capped below the state rating to reflect appropriation risk.

With the upcoming expiration of the FAST Act at the end of federal fiscal year (FFY) 2021, Fitch will monitor measures taken by Congress that could impact the program, including any multi-year reauthorizing acts or forms of interim funding. Although there is no assurance a reauthorization will pass, the possibility that Congress does not reauthorize the program has historically been remote. Additionally, a reduction in overall vehicle-miles-travelled (VMT) as result of the coronavirus pandemic is likely to reduce fuel tax revenues in the Highway Trust Fund (HTF) for 2021. While there may be competing policy and funding priorities placed on the federal government as a result of the pandemic, Fitch believes that the inherent essentiality of the program will result in supportive funding levels in the future.

KEY RATING DRIVERS
Dependence on General Fund Transfers (Nature of the Federal Program: Midrange)

In Fitch's view, what was once a formula-driven program funded on a multiyear basis has now morphed into a program where future policy is less certain, and funding levels are less predictable. The Highway Trust Fund (HTF) has been supported by short-term funding authorizations relying upon general fund transfers, which do not address the long-term disparity between revenues and outlays. The essential nature of the investment in addition to the reliable formulaic distribution of funds underpins the ratings on GARVEE bonds backed by future federal receipts from the HTF.

Significant Funding Flexibility – Structural Features: Stronger (Highway GARVEEs)

The standalone highway GARVEE bonds in Fitch's portfolio benefit from a first lien on all legally available federal transportation funding. In the case of reimbursement GARVEE bonds, this is accomplished by a pledge of all legally available federal transportation funds with early set-aside. Alternatively, in the case of direct-pay GARVEEs the broad pledge is accomplished through a covenant to de-obligate and redirect federal funds. In addition, highway GARVEEs benefit from leverage limitations of at least 3x, which provides the ability to retain sufficient flexibility generally at the 'A+' level in the event of a decline in federal revenues.

Reduced Leverage Test Provisions – Structural Features: Weaker (Transit GARVEEs)

The transit GARVEEs in Fitch's portfolio benefit from a broad pledge of federal transportation funding. However, in contrast to highway GARVEEs, the transit GARVEEs rated by Fitch have materially lower additional bonds test (ABT) requirements of around 1.5x and thus have less protection against declines in federal program revenues should agencies fully lever up to their ABT.

Resources of the DOT/Transit Agency:

In the event of a funding shortfall or a delay in federal funding due to a lapse in authorization the financial resources of the DOT and Transit Agency can provide financial cushion to meet GARVEE payment obligations. Fitch's assessment of the resources available is derived from several factors including the DOT/Transit Agency's amount of working capital, size of their capital program, access to liquidity, and their sources of funding. Assessments of this for credits in the portfolio range from stronger, midrange, to weaker; however, it is not the primary driver of standalone GARVEE ratings.

PEER GROUP
Fitch's standalone highway GARVEE bonds, all of which are in the 'A' category, tend to have strong additional leverage limitations of at least 3.0x current receipts to pay debt service. In contrast, standalone transit GARVEE bonds have materially lower leverage limitations of 1.5x, giving them less financial flexibility to protect against declines in federal program revenues, and are thus rated 'BBB'. Similar to other highway GARVEEs, NJTTFA's rating of 'BBB+' reflects appropriation risk, which is lower given the state of New Jersey's comparatively weaker Issuer Default Rating.

RATING SENSITIVITIES
Factors that could, individually or collectively, lead to positive/negative rating action/upgrade/downgrade:

With the upcoming expiration of the FAST Act at the end of FFY 2021, a new funding proposal that results in a change in Fitch's view of the nature of the federal program to Weaker or Stronger from Midrange could lead to a rating downgrade, or upgrade, respectively.

–For the case of NJTTFA, a change in Fitch's view of the state of New Jersey's IDR.

BEST/WORST CASE RATING SCENARIO
International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT UPDATE
HTF expenditures have been exceeding revenues over the past decade. The longer-term structural imbalance of the HTF was not addressed by the FAST Act passed in early December 2015, instead relying on general fund and Federal Reserve transfers to keep the program afloat through FFY 2020. On Sept. 30, 2020, Congress reached agreement on a Continuing Resolution (CR) to provide current appropriations through Dec. 11, 2020 and a one-year extension of the FAST Act keeping the program afloat for an additional year; however, the extension does not address the longer-term shortfall. Although continued fund transfers have underscored the relative importance of transportation funding within the federal budget, they do not guarantee future commitments. The current administration seeks to invest in infrastructure, but funding remains unclear and difficult to predict beyond FFY 2021. However, it is Fitch's view that significant changes are needed either on the expenditure side or on the revenue side (potentially through an increase in the motor fuel tax, additional tax revenues or surcharges at federal and state levels, increased toll usage, expanded user fees, or some other alternative revenue source) to put the program on a sustainable trajectory.

Fitch acknowledges the upcoming expiration of the FAST Act at the end of FFY 2021, and continues to monitor any new developments and potential legislative actions that could affect the program. Although there is no assurance a reauthorization will pass, the possibility that Congress does not reauthorize the program has historically been remote. Though highly tentative at this point, lawmakers have proposed potential solutions, which include various methods to raise the motor fuel tax, charging fees related to VMT, applying tolls to federal-aid highway projects, and/or possibly cutting outlays for certain projects.

Fitch also recognizes there will continue to be competing policy and funding priorities placed on the federal government as result of the coronavirus pandemic and the trajectory of recovery efforts. This potentially makes funding decisions regarding the HTF more difficult and Congress may choose to reduce federal highway spending or postpone a longer-term commitment to stabilizing HTF funding. Given the evolving nature of the coronavirus, it is important to note that, in most cases, GARVEE bonds benefit from the broad revenue pledge of all of a department of transportation's or transit agency's federal receipts. GARVEE structures also tend to have covenants to obligate first dollars in that pledge to mitigate the risk of diminished federal transportation receipts. Fitch's analysis of the GARVEE portfolio indicates an ability to withstand a material decline in federal funding and still maintain adequate financial metrics.

FINANCIAL ANALYSIS
Fitch performed an analysis of the federal grant program that assumes the latest CBO projection for outlays, translating into a 2.4% compound annual growth rate (CAGR) in HTF spending through 2031. HTF revenues are projected to grow at a CAGR of 1.5% for the same period. Under such a scenario, the annual gap between HTF spending and receipts averages roughly $19.5 billion from

2022-2031. Under the scenario above, the Federal Highway Administration (FHWA) would have to cut outlays to the states on average by 30% from fiscal 2022 through fiscal 2031 in order to match the revenues coming into the HTF.

Fitch's base case utilizes reasonable sponsor projections and assumes federal receipts remain flat at the latest available projected year, or otherwise assumes receipts are flat at the 2020 level, which produces strong maximum annual debt service (MADS) coverage across highway and transit GARVEEs.

Fitch's rating case on all standalone GARVEEs assumes federal transportation spending is cut to keep the HTF solvent (i.e. outflows match inflows). Fitch applied a permanent 30% haircut to receipts beginning in 2022 following expiration of the FAST Act, based on the average required annual reduction mentioned above, and holds receipts flat at that level. A haircut of this size would still result in MADS coverage across the board in excess of 2x for highway GARVEEs. The same reduction for transit GARVEEs would result in similar MADS coverage levels in the mid-2x range.

Fitch also ran an additional one-time breakeven scenario for all GARVEEs. Assuming a permanent reduction in 2022 followed by zero growth, federal receipts for debt service could withstand declines ranging from a minimum of 71% to upwards of 95%, and still meet 1.0x coverage through the life of the debt. The analyses also include the burden of future debt issuances and associated debt service, if any, showing high resilience should a potential decline or lapse in federal funding occur

Should state DOTs and transit agencies fully leverage their GARVEE programs up to their ABT, debt service coverage ratios on GARVEEs could drop significantly lower than current levels. Given their narrower ABT requirements, standalone transit GARVEEs are more susceptible to significant declines or delays in federal funding.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg