

Fitch Revises Outlook on Stand-Alone GARVEE Bonds to Negative

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Fitch Ratings has revised the Rating Outlook to Negative for all Stand-Alone grant anticipation revenue vehicle (GARVEE) bonds. A detailed report titled 'Fitch Revises Outlook to Negative on Stand-Alone GARVEE Bonds' is being issued concurrently.

Outlook Reflects Potential Policy Changes:

Fitch revised the Outlook to Negative from Stable for all stand-alone GARVEE bonds reflecting growing uncertainty in federal transportation policy, less predictable funding levels, and a pending expiration of a majority of federal motor fuel taxes. Pursuant to Title 23 of the U.S. code, states and certain other regional entities are eligible to receive federal grants for highway and transit infrastructure. Many grant recipients have leveraged against anticipated grant receipts to accelerate the delivery of infrastructure improvements. Despite being secured by federal grant receipts, GARVEE bonds are not obligations of the federal government.

Rationale for Negative Outlook:

In Fitch's view, what was once a formula-driven program funded on a multiyear basis is now morphing into a program where future policy is less certain, funding levels are less predictable, and the program is more dependent on frequent action to extend authorization and on general fund transfers that may need to be done on an annual basis absent a gas-tax increase or a cut in spending. An additional complication is that the authority to collect a majority of the motor fuel taxes and other taxes that make up the primary revenue source for highway and transit spending expires Sept. 30, 2011. While the previous program (SAFETEA-LU) was reauthorized three months before the lapse of the motor fuel and other taxes in 2005, we are six months away from the lapse of the tax with little possibility for a solution in the near term.

The larger budget debate could continue well into federal fiscal year (FFY) 2012, meaning that any progress on a longer term reauthorization of the highway program appears unlikely, and that additional transfers from the general fund may be necessary. In addition to how the program is funded, questions about the level of spending and the appropriate federal role are also being asked. Some key stakeholders feel that the current program lacks clear policy direction and that devolving some or all of the program to the states may be a preferred alternative to the current redistribution of federal gas taxes. Tolling of the interstates is one alternative that is being discussed. Devolving the program through tolling or other additional state sources could result in the same or increased resources available at the state level, but not to GARVEE bondholders that are secured solely by federal grant receipts.

Complicating this dilemma is the fact fuel costs are on the rise, meaning elected officials will continue to find it challenging to support the gas-tax increase necessary to make the program self-supporting. Given the uncertainty of the situation and the increasing potential for significant changes in transportation federal funding that could have a long-term impact, Fitch is revising the Outlook to Negative from Stable for GARVEE bonds without a back-up pledge of state resources. The GARVEE programs affected by this revision include:

Alaska Railroad Corp.

Chicago Transit Authority

Georgia State Road & Tollway Authority

Idaho Housing & Finance Association

Kentucky Asset Liability Commission

Maine Municipal Bond Bank

New Jersey Transit Corp.

Oklahoma Department of Transportation

Rhode Island Economic Development Corp.

State of California

State of Michigan

State of North Carolina

State of Ohio

Additional information is available at 'www.fitchratings.com'

Related Research:

--'Rating Criteria for Infrastructure and Project Finance', (Aug. 16, 2010);

--'Rating Criteria for Toll Roads, Bridges, and Tunnels', (Aug. 10, 2010).

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:

Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548345

Rating Criteria for Toll Roads, Bridges, and Tunnels

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=543265

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Fitch Ratings

Primary Analyst

Mike McDermott, +1-212-908-0605

Managing Director

Fitch, Inc.

1 State Street Plaza

New York, NY 10004

or

Secondary Analyst

Chad Lewis, +1-212-908-0886

Director

or

Committee Chairperson