STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

Alabama Federal Aid Highway Finance Authority; Federal or state grant programs

Primary Credit Analyst:
Georgina Rovirosa, New York (1) 212-438-7983; georgina.rovirosa@standardandpoors.com

Secondary Contact:
Todd R Spence, Dallas (1) 214-871-1424; todd.spence@standardandpoors.com

Table Of Contents

Summary:

Alabama Federal Aid Highway Finance Authority; Federal or state grant programs

Credit Profile		
US$508.475 mil spl oblig rev bnds ser 2014 due 09/01/2034		
Long Term Rating	AAA/Stable	New
Alabama Fed Aid Hwy Fin Auth fed hwy grant antic bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating on Alabama Federal Aid Highway Finance Authority's $508.5 million in federal highway special obligation revenue bonds series 2014 bonds. At the same time, Standard & Poor's has affirmed its 'AA' rating on the authority's series 2011 and 2012 GARVEE bonds outstanding, secured solely by Alabama's share of Title 23 federal aid transportation grants. The outlook is stable.

The 'AAA' rating reflects our opinion of the creditworthiness of the 2014 special obligation revenue bonds' program structure, which has strong debt service coverage, a pledge of Alabama's share of Title 23 federal aid transportation grants, and an additional pledge of the state's share of net gasoline tax proceeds. The 'AA' rating on the state's GARVEE bonds reflects our view of view of the authority's strong pro forma debt service coverage, as well as Alabama's history of maximizing its share of Title 23 funds.

More specifically, the rating incorporates our view of the following credit strengths:

- The bonds' security, which includes its share of Title 23 grant funds and an additional pledge of Alabama's share of gas tax revenues;
- A strong historical pro forma maximum annual debt service (MADS) coverage of 10.1x for the entire GARVEE program, based on 2014 obligation authority;
- Sound bond provisions, including an additional bonds test (ABT) requiring historical federal reimbursement revenue to provide at least 3x MADS coverage on existing and proposed bonds; and
- A long history of the state maximizing its share of Title 23 federal aid transportation grants.

Partially offsetting these is our view of the narrow pledge of federal transportation funds to the authority and the possibility of lower pledged revenues due to the risk of:

- A decline in funds from the Highway Trust Fund (HTF) or in Congressionally appropriated amounts;
- Changes to the federal highway program because of delays in congressional reauthorization; and
- The authority's failure to manage the reimbursement process prudently.

The bonds mature in 2034, which also exposes the program to reauthorization risk, in our view.

1371804 | 302307398

Bond proceeds will finance a portion of the Alabama's Transportation Rehabilitation and Improvement Program, which includes road and bridge projects throughout the state.

Alabama has approved legislation to expand the security of the authority's obligations for the 2014 bonds. The new legislation allows the state to pledge all or a portion of its own tax revenue, in addition to eligible federal highway funds, as security for its bonds issued in connection with its highway program.

Alabama has $367.9 million in debt outstanding under the GARVEE program, in series 2011 and 2012 bonds. Including this issue, the state will have approximately $877 million in revenue bonds outstanding secured by federal transportation grants; securing the bonds 2011 and 2012 bonds is a pledge of the Alabama Department of Transportation's (DOT) share of Title 23 federal aid transportation grants, with no backup pledge of other state funds. The state's share of Title 23 funds also secures the 2014 bonds, but they also have an additional pledge of Alabama's share of net gasoline tax proceeds. Similar to many other rated GARVEE programs, the bonds do not have a debt service reserve fund.

Alabama levies a gas tax totaling 16 cents per gallon. After a minor portion for the state's water and Safety Seafood Funds, net proceeds are distributed in three portions of 7, 5, and 4 cents. Proceeds from these three streams are subsequently allocated between Alabama's counties and municipalities, and its public road and bridge fund. The proceeds in the road and bridge fund additionally secure the series 2014 bonds. A part of the state's share of the 7-cent portion is also pledged to secure other obligations of the Alabama Highway Finance Corp. (AHFC).

The authority may issue additional bonds on par with the 2014 bonds if the lesser of federal receipts or obligation authority from the previous fiscal year provides at least 3x MADS coverage on all bonds, and if the state's share of gas tax revenues during the preceding fiscal year is greater than 1.5x MADS on all gas tax obligations outstanding. In addition, the authority may issue additional bonds secured solely by a pledge of the state's share of gas tax revenues if these proceeds by the Alabama DOT receives during the preceding fiscal year provide at least 3x MADS coverage on all limited gas tax obligations. The ABT also prohibits the AHFC to have more than $25 million outstanding secured by a parity pledge of state tax revenues.

The ABT for the series 2011 and 2012 bonds requires that federal receipts from the previous fiscal year provide at least 3x MADS coverage on all bonds. The Alabama DOT covenants to deposit the first federal aid funds received each fiscal year into the debt service fund. As long as the debt service fund contains sufficient money to pay debt service for the current federal fiscal year, any excess federal aid funds that are not received as direct GARVEE-project reimbursements can be used for any lawful purpose. Federal funds received as direct GARVEE-project reimbursements must remain in the debt service fund. Given our view of the bonds' strong debt service coverage levels and the requirement that debt service fund deposits be sufficient to pay annual debt service, we do not view the Alabama DOT taking excess federal aid funds as a credit concern.

Alabama typically uses all of its obligation authority in each federal fiscal year, receives additional obligation authority that the Federal Highway Administration has redistributed from other states, and effectively manages the reimbursement process. In our view, pro forma MADS coverage on the program is strong, at 10.1x based on 2014 obligation authority, and 2.99 x based on the state's share of gas tax revenues in fiscal 2014. The authority has historically maximized its federal support by consistently expending its annual obligation authority and by also receiving additional funds from other states' unused obligation authority.

The rating on the Alabama GARVEE bonds, like all other GARVEE ratings we maintain, 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 believe potential delays in authorizations, changes in law, declining HTF balances, or Congressional or administrative modifications to grant programs will not end the long-standing practice of federal aid for transportation on which we base our grant anticipation ratings. However, program rule changes, constrained funding sources, and federal budget pressures could lead to lower authorization and appropriation levels and diminish coverage, which we currently view as very strong for most transportation grant-backed bonds we rate.

On July 31, 2014, Congress approved a bill to provide $10.8 billion in short-term funding to address the dwindling balance in the HTF. If no action had been taken, funding for states and other transportation agencies would have been curtailed by 28% as of Aug. 1, and the HTF would have run out of money that was promised to states for highway and transit programs by September. However, this patch provides only enough money to sustain the highway and transit programs through May 2015. We will continue to monitor the situation. Congress is continuing to seek a long-term funding solution.

Although Standard & Poor's believes this congressional action alleviates the immediate pressure on GARVEE issuers, the delay and uncertainty regarding renewal authorizations to the surface transportation bill highlight the key credit weakness of GARVEE ratings. Although we believe the likelihood that federal transportation funding will be discontinued is remote, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that negatively affect recipients. In our opinion, both the history of the program and its vital role in preserving and expanding the national highway system, as well as the significant funding needs facing surface transportation and the lack of resources to fund those needs, support continued reauthorization of the program for the foreseeable future. We will closely monitor the sector both during and after reauthorization to evaluate how issuers of federal grant-backed bonds alter their debt programs.

As a result of the application of the U.S. Federal Future Flow Securitization criteria on bonds series 2011 and series 2012, the maximum indicative rating level for GARVEEs or grant anticipation notes secured solely by federal aid funds one notch below the rating on the U.S. (AA+/Stable/A-1+). This criteria does not pertain to the series 2014 bonds, because of the additional local gas tax pledge

We rate the 2014 bonds one notch above the U.S. rating. In applying our "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" criteria (published Nov. 19, 2013, on RatingsDirect), we view Alabama's share of gas tax revenues pledged to the bonds as, sizeable, and locally derived. This, coupled with these local revenues providing 3x MADS coverage alone based on 2014 collections, mitigates the bond's exposure to potential federal revenue volatility. Furthermore, the state has a constitutional prohibition against the use of gas tax revenues for any purpose other than transportation and traffic related investments. We view its stable history of gas tax collections as a strength.

Outlook

The stable outlook reflects our expectations that the long-standing federal aid highway program will continue to receive significant funding and that Alabama will continue to receive its historical share of annual Title 23 distributions. Should debt service coverage decline significantly or the state fail to prudently manage the projects or reimbursement process, we could downgrade the bonds. We do not expect to raise the ratings during our two-year outlook period.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Federal Future Flow Securitization, March 12, 2012
- USPF Criteria: Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations, May 29, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.