FITCH RATES MARYLAND TRANSPORTATION AUTHORITY'S $560MM REVS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-13 November 2009: Fitch Ratings assigns an 'AA-' rating to approximately $560 million Maryland Transportation Authority (MdTA) transportation facilities projects revenue bonds consisting of series 2009A (tax-exempt bonds) and 2009B (Build America Bonds (BABs). The actual par amounts of the two series will be determined on the day of pricing during the week of Nov. 19, 2009 depending on market conditions. Additionally, Fitch affirms the 'AA-' rating on $1.09 billion of MdTA transportation facilities projects revenue bonds and on a $516 million Transportation Infrastructure Finance and Innovative Act (TIFIA) loan, which are parity obligations. Bond proceeds will be used to fund the cost of acquiring, constructing, equipping and improving certain transportation facilities projects, fund reserves, pay capitalized interest and pay the cost of issuance. The Rating Outlook is Stable.

The bonds are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from a diverse system of six toll facilities, including I-95 between Baltimore and the Maryland-Delaware state line; three bridges which cross the Chesapeake Bay near Annapolis, the Potomac River connecting Southern Maryland with Virginia and the Baltimore harbor; and two tunnels on I-95 and I-895 which both cross Baltimore harbor. In addition, the Intercounty Connector (ICC) is also a part of this system and is expected to start contributing once it is operational in 2010.

Fitch's 'AA-' rating reflects the revenue diversity derived from a system of toll facilities serving well-established and high-volume travel markets. Given the transportation facilities projects' essentiality and limited alternative competing facilities, they provide MdTA with a high level of economic rate-making ability. Additionally, the rating incorporates MdTA's track record of strong financial performance that has allowed the authority to meet its operating, debt service and capital needs while at the same time maintaining high liquidity levels and financial margins. As a result, the strength of the existing system is expected to provide significant protection in the event of lower than expected toll revenues and higher than expected operating costs for the ICC project, which will provide a new tolled east-west highway link between Montgomery County and Prince George's County, Maryland.

The primary credit challenge facing MdTA is managing its growing capital obligations on the existing system while at the same time undertaking the ICC and JFK express lane project, which is undergoing scope changes. Additional key rating risks include the increased reliance on debt and timely action on the part of MdTA to implement planned toll increases to meet growing debt service obligations, which are expected to increase to $185 million in 2016 from $35 million in 2010. Despite a history of meeting or exceeding financial projections, it is Fitch's view that financial margins could become more constrained given the substantial commuter discount program and potentially higher operating expenses over the medium term as the ICC project ramps up operations. The ability to implement higher toll rates than the anticipated moderate planned increases and/or the deferral of capital improvements and expansion projects mitigates this risk but could elevate political risks.

In Fitch's view, MdTA's past toll increases in anticipation of the capital program, strong cash position and continued rate-making ability provide financial flexibility to manage increasing obligations for the existing toll facilities and the ICC as well as absorb potential downside events. Although additional debt issuance is expected to erode coverage in the future, Fitch expects MdTA, consistent with the 'AA-' rating, to manage the pace of borrowing, implement additional toll increases, control operating expense growth and adjust its discount program as needed to maintain debt service coverage at 2 times (x) and cash balances consistent with the authority's policy of the lesser of 1x annual toll revenues or $350 million. Coverage below 2x would be inconsistent with the current rating.

During 2002-2007, MdTA experienced greater than inflationary growth in adjusted operating expenses of 11.3% annually. However, management's actions to reduce expenses in fiscal 2008 and 2009 have led to flat operating expenses for two years. Continued management of expenses is expected in 2010 as revenue growth is expected to be limited. Furthermore, careful management of operating expenses, including additional costs associated with the ICC and will be key to the rating.

The MdTA's traffic demand and financial performance are its key credit strengths. Traffic demand, which includes a combination of interstate, urban commuter and recreational travel, is steady and relatively inelastic. From 2002-2007, toll transactions grew minimally at 0.6%. Despite poor economic conditions toll transactions declined by 0.5% and 2% in 2008 and 2009, respectively. Reflecting the toll increase in 2004, toll revenues grew over 27.5% to $251 million from $197 million, but have generally remained flat since the toll increase. Fitch expects toll transactions will remain flat or slightly decline in 2010 but revenue is expected to increase given the recent increases to multi-axle vehicles and the modification of various fees.

Debt service coverage equaled 4.37x and 4.29x in fiscal years 2008 and 2009, respectively. Since fiscal 2002, debt service coverage has been at least 4.29x, but this is expected to drop to approximately 2x in future and potentially lower, should traffic declines continue and/or expenses erode margins. Fitch expects the MdTA will need to raise toll rates in 2012 commensurate with increased annual principal and interest payments. In Fitch's opinion, future toll rate increases will likely be needed, potentially higher than previously anticipated to maintain debt service coverage above 2x.

MdTA's $3.5 billion fiscal years 2010-2015 capital program encompasses $1.6 billion for the ICC and $1.9 billion for the regular maintenance and preservation as well as some expansion of existing facilities. MdTA expects to finance its capital program by issuing a total of $1.8 billion in bonds and TIFIA loans. The balance of funding, primarily for the ICC, would be derived from state and federal cash contributions and authority pay-as-you go funding. Since the ICC is expected to represent no more than 10% of total revenues by fiscal 2015, the existing toll facilities are likely to cross subsidize the ICC's debt service needs for an extended period.

MdTA was established by the Maryland General Assembly in 1971 and is responsible for the construction, operation, maintenance and repair of certain revenue-producing transportation facilities projects. The transportation facilities projects consist of the Potomac River Bridge, the Chesapeake Bay Bridge, the Baltimore Harbor Tunnel, the Baltimore Harbor Outer Bridge, the Ft. McHenry Tunnel, the InterCounty Connector and the John F. Kennedy Memorial Highway.

The application of the following criteria was used to derive the rating of the above referenced bonds:

--'Rating Criteria for Infrastructure and Project Finance', dated Sept. 29, 2009;
--'Global Toll Road Rating Guidelines' dated March 6, 2007.

Both are available on the Fitch Ratings web site at 'www.fitchratings.com'.

Contact: Chad Lewis +1-212-908-0886 or Mike McDermott +1-212-908-0605, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at www.fitchratings.com.

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