FITCH UPGRADES MARYLAND TRANSPORTATION AUTH'S TRANSPORTATION FACIL PROJ REVS TO 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-06 August 2018: Fitch Ratings has upgraded Maryland Transportation Authority's (MDTA) approximately $1.6 billion transportation facilities project revenue bonds to 'AA' from 'AA-'. The Rating Outlook is Stable.

The upgrade to 'AA' reflects the strong corridor with continued traffic growth, MDTA's superior financial flexibility, and consistently high debt service coverage compared to peers. Fitch expects the authority to retain strong metrics even incorporating expected future debt issuances for the capital plan of $1.2 billion through 2024.

KEY RATING DRIVERS

The rating reflects Maryland Transportation Authority's role as a vital system that provides diverse transportation links in the mid-Atlantic region, demonstrated traffic levels with resilience to economic conditions, and a pricing framework which allows for a strong rate-making ability. The rating is supported by robust financial metrics under Fitch's rating case scenario, with a high average debt service coverage ratio (DSCR) of 3.3x, and moderate projected leverage (net debt over cash flow) of 4.3x in 2022.

Critical Transportation Network - Revenue Risk (Volume): Stronger

MDTA revenues are derived from a diverse system of seven mature assets and the Inter County Connector (ICC) that provide critical transportation links in a high volume market with limited competing facilities. The systems legacy facility transactions have historically experienced low elasticity while numerous significant toll increases have been introduced. Electronic toll rates for passenger cars are moderate at $0.10 per mile and as low as $0.07 per mile in the overnight hours, providing economic ratemaking flexibility. This ratemaking ability is supported by the facilities' affluent service areas comprising Baltimore and Washington D.C. metropolitan statistical areas.

Demonstrated Toll Increases - Revenue Risk (Price): Stronger

The authority has a demonstrated ability to raise rates without limitation to maintain financial flexibility and meet internal financial policies. Concerns about the reduction of toll rates in 2016 are mitigated by the authority's commitment to maintaining a 2.0x debt coverage policy and historical willingness to increase tolls in excess of inflation. However, there are no current plans for any toll adjustments.

Prudent Capital Planning - Infrastructure & Renewal: Stronger

The authority's facilities are in overall good condition. The $3.5 billion 2018-2024 capital program focuses on preservation and also addresses system expansion and congestion relief. The program is two-thirds funded as pay-go, with the remaining one-third funded with $1.2 billion in future debt issuances. The replacement of the Nice Bridge with a large four-lane bridge is included in the capital plan at a total cost of $769 million.

Conservative Debt Structure - Debt Structure: Stronger

The authority operates according to a policy of maintaining a debt service coverage ratio (DSCR) above 2.0x and a statutory bond cap of $2.3 billion rising to $3.0 billion after 2020. The replacement of the current $81 million in cash-funded debt service reserves with surety policies is somewhat mitigated by the authority's strong cash position, with an estimated 506 days of unrestricted cash on hand as of fiscal year end 2018. Cash balances are expected to remain strong, with the authority's policy of maintaining an unencumbered cash balance of $350 million, even as the authority uses cash to execute its capital program.

Financial Profile

MDTA has a demonstrated track record of producing solid debt service coverage and maintaining moderate leverage while retaining a high level of financial flexibility. Fitch's 10 year rating case DSCR averages 3.3x and remains significantly above the authority's target of 2.0x. Net debt-to-cash-flow available for debt service increases to 4.3x in fiscal 2022 and the maximum leverage is moderate at no more than around 6.0x in the rating case as net debt is issued through 2025.

PEER GROUP

Florida Turnpike Enterprise (FTE, AA/Stable) and Pennsylvania Turnpike Commission (PTC, A + senior /A- subordinate/Stable), like MDTA are essential facilities with strong catchments and limited direct competition. All three have considerable ongoing capital needs. The rating case average DSCRs for MDTA and FTE at 3.3x and 2.9x respectively are comparable, but MDTA's year five leverage of 4.3x exceeds FTE's of 2.6x as additional debt is issued through 2025. PTC's overall debt burden and political risk associated with implementing toll rates above inflation for multiple years have a constraining effect on the senior lien rating.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Under-performance of traffic and revenue with further toll reductions or unwillingness to adjust tolls with coverage dropping to at or near the 2.0x debt service coverage policy.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--At the current rating level, a further upgrade is unlikely due to future investment and political risks inherent to toll systems.

CREDIT UPDATE

Performance Update

Fiscal year 2017 legacy traffic and toll revenues increased by 2.5% and 3.5%, respectively. Higher toll revenue growth was driven by larger commercial vehicle growth and shifts in methods of payment leading to higher average toll rates. In the first nine months of fiscal year 2018, traffic and revenue have also increased slightly, rising 0.2% and 0.9%, respectively. Total operating expenses paid from pledged revenue grew 5.1% in fiscal 2017, mainly due to building and road repairs, an increase in electronic toll collection costs, and an annual increase in salaries and benefits.

The capital plan from 2018-2024 is substantial at approximately $3.5 billion and covers preservation, system expansion, and congestion relief. The authority plans to cash-fund two-thirds of the plan and issue $1.2 billion in debt to fund the remaining third. The plan includes the replacement of the one-lane Harry W. Nice Memorial bridge with a new bridge built north of and parallel to the existing crossing. This bridge will include two lanes of traffic in each direction and a barrier separated bicycle and pedestrian path. MDTA's funding plan for the $769 million replacement is comprised of $384 million of cash funding, $250 million of TIFIA Loans and $134 million of transportation revenue bonds.

MDTA eliminated the $7.50 E-ZPass Maryland transponder fee for all new customers in May 2018. The authority will lose approximately $6 million in fees, but anticipates increased use of electronic tolling across the system. Due to the operating cost differential between electronic and cash tolling, management expects the conversion to be budget neutral. In 2019, the authority will convert two facilities to AET.

Fitch Cases

Fitch's base case utilizes sponsor-projected revenues, expenses, capital spending, and cash balances, with no toll increases through 2027. Fitch also incorporated the expected $1.3 billion in additional debt from fiscal 2020 through 2025. The authority maintains robust metrics with an average DSCR of 3.6x from 2018-2027 and year-five leverage of 3.7x in 2022.

Fitch's rating case assumes a 4% traffic stress in 2020, generally in line with previous recessions, followed by 1% annual revenue growth and no toll increases through 2027. Annual growth in operating expenses is stressed 0.5% above base case growth rates. The proposed debt issuances were also incorporated. Metrics under stressed rating case conditions remain strong, even when considering anticipated future leveraging, reflecting MDTA's resilience to economic downturns and its essentiality. DSCR from 2018-2027 averages 3.3x, and year-five leverage is 4.3x 2022. Leverage peaks at 6.1x in 2025 due to new debt issuances. Beyond the forecast period, sustained low growth rates coupled with increased expense growth could result in narrowing of the financial margins and may require the authority to increase rates to maintain the 2.0x debt service target. Fitch views the authority's economic ratemaking flexibility as strong considering its relatively low toll rates.

Asset Description
The Maryland Transportation Authority is an independent state agency tasked with the construction, operation, maintenance, and repair of certain revenue-producing Transportation Facilities Projects and General Account Projects. The authority operates a diverse system of eight toll facilities including I-95 between Baltimore and the Maryland-Delaware state line, three bridges crossing Chesapeake Bay, Potomac River and Baltimore Harbor, two tunnels on I-95 and I-895 and ICC since operations began in February 2011.

Security
The bonds are primarily secured by the net revenues of the Transportation Facilities Projects.

Contact:

Primary Analyst
Anne Tricerri
Associate Director
+1-646-582-4676
Fitch Ratings, Inc.
33 Whitehall Street,
New York, NY 10004

Secondary Analyst
Scott Monroe
Director
+1-415-732-5618

Committee Chairperson
Seth Lehman
Senior Director
+1-212-908-0755

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
https://www.fitchratings.com/site/re/10038532
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)
https://www.fitchratings.com/site/re/10038900