FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Maryland Transportation Auth's Facilities Project Revs Ser 2021A 'AA'; Outlook Stable

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Fitch Ratings - New York - 08 Mar 2021: Fitch Ratings has assigned a 'AA' rating to Maryland Transportation Authority's (MDTA) approximately $738 million in transportation facilities project revenue and revenue refunding bonds series 2021A. Fitch has also affirmed the 'AA' rating on the outstanding $1.9 billion transportation facilities project revenue bonds. The Rating Outlook on all of the bonds is Stable.

Feedback

RATING RATIONALE

The rating reflects MDTA'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 that allows for a strong rate-making ability. Although the authority experienced significant pandemic-related traffic declines, peak declines were in line with other facilities in Fitch's rated portfolio.

The rating is supported by robust financial metrics; under Fitch's coronavirus rating case scenario, which incorporates coronavirus-related stresses, the average debt service coverage ratio (DSCR) throughout the forecast is high at 2.6x, and projected leverage (net debt over cash flow) is moderate at 5.4x in 2025. MDTA's substantial liquidity position, with over 700 days cash on hand (DCOH) as of fiscal year-end 2020, provides additional support to the rating.

KEY RATING DRIVERS

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), which provide critical transportation links in a high-volume market with limited competing facilities. The system's legacy facility transactions have historically experienced low elasticity when numerous significant toll increases have been introduced. As a result of the pandemic-related shutdowns commencing in March, MDTA experienced yoy peak weekly traffic declines of approximately 65% for passenger vehicles and 23% for commercial vehicles. Steady increases in traffic have been observed as state restrictions were eased beginning in mid-May.

Demonstrated Toll Increases - Revenue Risk (Price): Stronger

The authority has a demonstrated ability to raise rates to maintain financial flexibility and meet internal policies. This ratemaking ability is supported by the facilities' affluent service areas comprising Baltimore and Washington D.C. metropolitan statistical areas. There are no current plans for any toll adjustments.

Prudent Capital Planning - Infrastructure Development & Renewal: Stronger

The authority's facilities are in overall good condition. The $2.8 billion 2021-2026 capital program focuses on preservation and addresses system expansion and congestion relief. In light of the coronavirus pandemic, this program represents a $302 million reduction from the 2020-2025 program, which will reduce cashflow demands in a stressed economic environment. The program is approximately 50% funded as pay-go, with the remaining funded with $1.1 billion in future debt issuances. The replacement of the Nice Bridge with a larger four-lane bridge is included in the capital plan; the project's total cost is estimated at $636 million.

Conservative Debt Structure - Debt Structure: Stronger

The authority's debt is all senior, fixed rate, and fully amortizing. The covenant package is adequate with an additional bonds test and rate covenant both at 1.2x debt service coverage but the authority maintains coverage above 2.0x in accordance with its debt policy. The authority's debt policy also includes a statutory bond cap of $3.0 billion.

Financial Profile

MDTA has a demonstrated track record of maintaining solid debt service coverage and moderate leverage while retaining financial flexibility. Liquidity is strong with over 700 days of unrestricted cash on hand as of fiscal year-end 2020. Cash balances are expected to decline as the authority executes its capital program. However, the authority adheres to a policy of a $350 million minimum unencumbered cash balance. Fiscal 2020 coverage was 3.7x and leverage was 3.4x. In Fitch's rating case, the 10-year DSCR averages 2.5x and leverage increases to 6x by 2030 including new debt issuances with no toll increases. However, the authority has historically projected new debt issuances conservatively.

PEER GROUP

Like MDTA, Florida Turnpike Enterprise (FTE; AA/Stable) and Pennsylvania Turnpike Commission (PTC; A+/Stable senior and A-/Stable subordinate) are essential facilities with strong catchments and limited direct competition. All three have considerable ongoing capital needs. The average rating case DSCRs for MDTA and FTE are comparable, but MDTA's leverage exceeds FTE's as additional debt is issued through 2028. PTC's higher debt burden than both MDTA and FTE results in higher leverage on both liens, explaining PTC's lower ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--At the current rating level, a further upgrade is unlikely due to future investment and political risks inherent to toll systems.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--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.

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].

TRANSACTION SUMMARY

MDTA expects to issue approximately $738 million in transportation facilities project revenue and revenue refunding bonds, series 2021A. Proceeds will be used to fund capex under the authority's capital program, refund the series 2008A bond and cover the cost of issuance. The bonds will be fixed rate, on parity with existing transportation facilities project revenue bonds, and reach final maturity in 2052. The bonds are expected to price on March 24, 2021.

Feedback

CREDIT UPDATE

Traffic and toll revenue both declined by 52% and 38%, respectively in the seven-months fiscal YTD due to the pandemic. The decline was mostly due to the 50% drop in passenger revenue. Commercial revenue fared better, declining by 15% yoy. Although declines in traffic and revenue have been severe, the authority's substantial liquidity position of over $550 million in unrestricted cash as of FYE 2020 provides cushion and is sufficient to fund the entire fiscal 2021 operating budget and debt service. Due to the authority's strong liquidity position, management does not expect to draw on its DSRF, which is comprised of sureties and cash.

MDTA has implemented reductions to its operating and capital budgets to mitigate lost revenue in the near term, but capital projects underway and with near term start dates are expected to continue as scheduled. The MDTA maintains the financial flexibility necessary to reduce operating and capital expenses by delaying expansion projects.

FINANCIAL ANALYSIS

Fitch has developed two scenarios evaluating a potential deeper and more prolonged health crisis with economic effects that may extend recovery beyond 2022. The differences between the two cases focus on the level of initial recovery of toll revenues in 2021 through the next several years. Both cases factor in YTD performance and anticipated future borrowings. Operating expenses in both cases include management's estimate in 2021 followed by approximately 4.5% annual growth. Given the current economic environment due to the coronavirus, and the unlikeliness of a stable operating environment over the near term, Fitch's coronavirus rating case is also considered the base case.

In Fitch's coronavirus rating case, passenger toll revenues reach 59% of 2019 levels in fiscal 2021 followed by recovery to 93% and 100% of 2019 levels in 2022 and 2023, respectively. Commercial traffic reaches 89% of 2019 levels in fiscal 2021 and reaches 2019 levels in fiscal 2022. Revenue assumptions grow by 1% per year thereafter. Under these assumptions, DSCR averages 2.5x from 2021-2030 with a year-five (2025) leverage of 5.2x. Minimum coverage is 1.9x in 2030, reflecting additional future borrowing.

Fitch also ran a coronavirus downside case with passenger toll revenue reaching 53% of 2019 levels in fiscal 2021, followed by steady recovery to 2019 levels by 2025. Commercial toll revenues reach 85% of 2019 levels in fiscal 2021 and fully recover by 2023. Toll revenue subsequently increases by 1% per year. Under these assumptions, DSCR averages 2.3x from 2021-2030 with a year-five (2025) leverage of 5.4x. Minimum coverage is 1.8x in 2030, reflecting additional future borrowing.

Indicative rating guidance highlights that 'AA' rated assets are expected to average 1.8x coverage throughout the rating case. Even in a severe downside scenario, the Authority's momentary, minimum DSCR of 1.8x, substantiates the 'AA' rating.

SECURITY

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

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.

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.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Maryland Transportation Authority (MD)		

ENTITY/DEBT	RATING			PRIOR
• Maryland Transportation Authority (MD) /Transportation Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Maryland Transportation Authority (MD)	EU Endorsed, UK Endorsed

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