FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Maryland Transportation Auth's Transp Facilities Project Revs at 'AA'; Outlook Stable

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Fitch Ratings - Chicago - 28 Mar 2024: Fitch Ratings has affirmed the rating of Maryland Transportation Authority's (MDTA or the authority) outstanding transportation facilities project revenue bonds and Transportation Infrastructure Finance and Innovation Act (TIFIA) loan series 2022A at 'AA'. The Rating Outlook on all of the bonds is Stable.

The rating affirmation reflects MDTA's strong financial position and Fitch's expectation of maintained financial metrics above Fitch's negative sensitivity. Fitch will continue to monitor the reconstruction plans for the Francis Scott Key Bridge as they develop.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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 flexibility. The rating is supported by robust financial metrics. MDTA's substantial liquidity position, with over 900 days cash on hand (DCOH) as of fiscal 2023, coupled with conservative debt management policies, provides additional support to the rating.

KEY RATING DRIVERS

Revenue Risk - Volume - High Stronger

Critical Transportation Network: MDTA revenues are derived from a diverse system of seven mature assets and the Inter County Connector (ICC) that provide critical transportation links in an affluent, 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. Fitch considers passenger and commercial toll rates on the system as moderate relative to peers.

Revenue Risk - Price - Stronger

Demonstrated Toll Increases: The authority has independent rate-setting powers and a demonstrated ability to raise rates to maintain financial flexibility and meet internal policies. There are currently no plans for future toll increases; however, Fitch would expect the authority to implement further increases as necessary to protect its financial profile should the need arise.

Infrastructure Dev. & Renewal - Stronger

Prudent Capital Planning: The authority's facilities are in overall good condition. The $3.1 billion fiscal 2024-2029 capital program focuses on preservation and also addresses system expansion and congestion relief. The program is approximately 68% funded as pay-go, with the remaining funded with municipal issuances. In the next six years, the authority expects to raise approximately $1.0 billion of debt.

Debt Structure - 1 - Stronger

Conservative Debt Structure: All of MDTA's debt is senior ranking, fully amortizing and fixed-rate, supported by an adequate covenant package, which includes surety policy backed debt service reserve funds. The authority operates according to a policy of maintaining a DSCR above 2.0x, unencumbered cash above $400 million, and a statutory bond cap of $3.0 billion.

Financial Profile

MDTA has a track record of strong financial flexibility evidenced by solid DSCR and moderate leverage. DSCR was 3.7x in fiscal 2023 versus the previous base case expectation of 2.7x. Fitch's 10-year rating case DSCR averages 2.1x. Leverage increases from 2.5x in fiscal 2023 to 6.2x by fiscal 2033 in the rating case as the authority is assumed to continue issuing debt without increasing tolls. Liquidity continued to remain strong in fiscal 2023, though balances are expected to be partially spent down as the authority executes its capital program.

PEER GROUP

Like MDTA, Florida Turnpike Enterprise (FTE; AA/Stable) and Pennsylvania Turnpike Commission (PTC; AA-/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 expected to be issued over the next six years. PTC's higher debt burden than both MDTA and FTE results in higher leverage, commensurate with PTC's lower ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Under-performance of traffic and revenue or unwillingness to adjust tolls leading to sustained rating case DSCR at or near 2.0x could pressure the rating;

--Funding needs for the Francis Scott Key Bridge reconstruction requiring additional bonds causing substantially lower average DSCR and higher leverage than in Fitch's rating case.

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.

CREDIT UPDATE

On March 26, the Francis Scott Key Bridge collapsed upon being hit by a massive cargo ship. In fiscal 2023, the Francis Scott Key Bridge accounted for approximately 7% and 8% of total toll revenues and traffic, respectively. It is expected that a sizable portion of these transactions and revenues will remain within the system as Baltimore Harbor Tunnel and Fort McHenry Tunnel, two MDTA assets, are the best alternative routes across the Baltimore Harbor.

The authority has a policy to maintain unencumbered cash above $400 million. The authority's substantial liquidity position of over $800 million in unrestricted cash and DCOH of 913 days at fiscal 2023 provides cushion and is sufficient to fund the entire fiscal 2024 operating budget and debt service.

Fitch will continue to monitor MDTA's plans for rebuilding the bridge and sources of funds used for the project. The authority has property and business interruption insurance that could partially fund the cost for rebuilding the bridge, and the authority is expected to receive funds from the protection and indemnity insurance covering the cargo ship. MDTA has $350 million in single event property insurance coverage. President Biden stated his intention for the federal government to cover the entire cost of the bridge reconstruction, which would need congressional approval.

If MDTA were required to debt fund a significant portion of the bridge, which will likely not be required, financial metrics could tighten absent mitigating action such as a toll rate increase. The additional bonds test on the TIFIA loan requires 2.0x DSCR and MDTA has a debt policy to maintain 2.0x DSCR. Also, MDTA has a statutory bond cap of $3.0 billion. Fitch expects MDTA would increase toll rates as needed and seek other funding for the bridge replacement in order to adhere to these structural features.

For more information on MDTA, please see "Fitch Affirms Maryland Transportation Auth's Trans. Facilities Project Revs at 'AA'; Outlook Stable" at www.fitchratings.com.

FINANCIAL ANALYSIS

Fitch has not yet incorporated the effect of the bridge collapse into its base and rating cases since the situation is still evolving. Fitch is monitoring the extent of traffic diversions to the tolled alternative routes and the replacement plan for the bridge. When excluding all revenues from the Francis Scott Key Bridge in Fitch's cases with no uplift on alternative crossings, the DSCR remains above 2.0x over the next three years.

Fitch Cases

Fitch's cases include conservative assumptions for new debt issuances over the next six years and does not include any toll increases through fiscal 2033. Fitch's base case incorporates the sponsors toll revenue assumptions for fiscal 2024 followed by 1% growth per annum from fiscal years 2025 to 2033 reflecting the mature nature of the system. Operating expenses grow at a 10-year CAGR of 4.1%. For this scenario, the 10-year DSCR averages 2.2x and year-five leverage (fiscal 2028) is 5.7x. Coverage levels dip below 2.0x after fiscal 2028 in the base case. However, Fitch expects that the authority would implement a toll increase or pursue cost cutting measures to meet its financial policy of 2.0x debt service coverage were these case conditions to occur.

The rating case mirrors the base case assumptions for fiscal 2024, but applies a hypothetical recession in fiscal 2025 with a 4% decline in toll revenues followed by a three-year recovery to base case levels. Operating expenses increase by 4.5% per annum. Under these conditions, the 10-year average DSCR is 2.1x and the year-five leverage is 5.8x. Similar to the base case, coverage levels dip below 2.0x after fiscal 2028 in the rating case.

SECURITY

The TIFIA loan entered into in 2022 as well as and the outstanding transportation facilities project revenue bonds are primarily secured by a first lien on the net revenues of the Transportation Facilities Projects.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub. 18 Dec 2023) (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, v1.4.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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