FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Maryland Transportation Authority's TIFIA Loan Series 2022A 'AA'; Outlook Stable

Thu 14 Apr, 2022 - 3:15 PM ET

Fitch Ratings - New York - 14 Apr 2022: Fitch Ratings has assigned a 'AA' rating to Maryland Transportation Authority's (MDTA or the authority) approximately $200 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan series 2022A. Fitch has also affirmed the 'AA' rating on the outstanding $2.1 billion parity transportation facilities project revenue bonds. The Rating Outlook on all of the bonds is Stable.

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. Despite significant pandemic-related traffic declines, MDTA's facilities have seen a steady recovery back to pre-pandemic levels. The rating is supported by robust financial metrics. Under Fitch's rating case scenario, the 10-year average debt service coverage ratio (DSCR) is 2.3x and leverage (net debt over cash flow) is moderate at 5.5x in 2026. MDTA's substantial liquidity position, with approximately 460 days cash on hand (DCOH) as of fiscal 2021, 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) 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.

Demonstrated Toll Increases - Revenue Risk (Price): Stronger
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.

Prudent Capital Planning - Infrastructure Development & Renewal: Stronger
The authority's facilities are in overall good condition. The $2.8 billion 2022-2027 capital program focuses on preservation and also addresses system expansion and congestion relief. In light of the coronavirus pandemic, this program was reduced by $302 million in fiscal 2021 to lessen cashflow demands in a stressed economic environment. The program is approximately 65% funded as pay-go, with the remaining funded with TIFIA and municipal issuances. In the next 10 years, the authority expects to raise approximately $1.4 billion of debt. The capital plan includes the Nice Bridge replacement with the remaining project cost estimated at $372 million and a completion date in fiscal 2023.

Conservative Debt Structure - Debt Structure: Stronger
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 (DSRFs). The authority operates according to a policy of maintaining a DSCR above 2.0x, unencumbered cash above $350 million, and a statutory bond cap of $3.0 billion. Liquidity is strong with approximately 460 DCOH as of fiscal 2021, though balances are expected to be partially spent down as the authority executes its capital program.

FINANCIAL PROFILE
MDTA has a track record of strong financial flexibility evidenced by solid DSCR and moderate leverage. In fiscal 2021, the transition to all electronic tolling significantly increased uncollected toll receivables, temporarily weakening metrics. Fiscal 2021 DSCR and net debt/CFADS were 2.7x and 8.4x, respectively, compared to 3.7x and 3.4x in fiscal 2020. Fitch's 10-year rating case DSCR averages 2.3x and leverage increases to 7.2x by

2031 as the authority is assumed to continue to issue debt annually without increasing tolls.

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 expected to be issued over the next 10 years. PTC's higher debt burden than both MDTA and FTE results in higher leverage on both liens, 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 from further toll reductions or unwillingness to adjust tolls leading to sustained DSCR at or near 2.0x.

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.

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 an approximately $200 million TIFIA loan, series 2022A. Proceeds will be used to fund the Nice/Middleton Bridge replacement project. The loan will be fixed rate, on parity with existing transportation facilities project revenue bonds, and reach final maturity in 2054. The loan is expected to close in late April with funds to be drawn in January 2023.

CREDIT UPDATE

Traffic and revenue have recovered significantly since peak pandemic declines in fiscal 2020. Fiscal 2022 YTD (July through January) total system in-lane traffic (traffic counts regardless of collections) has surpassed the same period in 2021 and is tracking close to 2019. Total system traffic in fiscal 2021 (YE June 30) declined by 7% yoy and 19% compared to 2019. In fiscal 2021, legacy facility (excluding the I-95 express toll lanes [ETL] and ICC) passenger traffic reached 86% of fiscal 2019 levels and commercial traffic surpassed fiscal 2019 levels by 6%. Passenger traffic on the new facilities (ICC and ETL) has been slower to recover, reaching 74% of fiscal 2019 levels. These facilities primarily serve as congestion relievers for commuters and many workers continue to telecommute.

In fiscal 2022 YTD, MDTA has recovered approximately 62% of its backlogged tolls associated with the transition to all electronic tolling. On April 29, 2021, the MDTA successfully transitioned to its new toll collection system, the Third Generation Electronic Toll Collection System. Due to the suspension of cash collections and the conversion to all electronic tolling there was a temporarily large increase of more than $170 million in uncollected toll receivables in fiscal 2021. Toll revenues, prior to toll backlog adjustments, grew by 11% in fiscal 2021, bolstered by strong commercial traffic, which accounted for 39% of fiscal 2021 revenues.

The authority is building a new Nice Bridge north of and parallel to the existing crossing. The new bridge will double the capacity of the existing bridge with two lanes of traffic in each direction. Construction began in fiscal 2020 with completion scheduled for December 2022. The existing bridge will remain open during construction and will be demolished after the new bridge is open to traffic. As such, the MDTA does not expect any revenue loss during construction. The estimated total cost of the project is $636 million and is partially funded by the series 2022A TIFIA loan.

FINANCIAL ANALYSIS

Fitch's cases reflect recovery from the coronavirus pandemic and include conservative assumptions for new debt issuances over the next 10 years. Fitch's base case assumes full recovery to pre-coronavirus revenues in fiscal 2022 incorporating the collection of outstanding video toll invoices associated with the conversion to all electronic tolling. Toll revenue grows at 1% per year thereafter and operating expenses increase at 4% annually.

In this scenario, the 10-year DSCR from 2022 through 2031 averages 2.4x and year-five leverage (2026) is 5.2x.

The rating case mirrors the base case recovery for fiscals 2022-2023, but applies a hypothetical recession in 2024 with a 4% decline in toll revenues followed by a three-year recovery to base case levels. Operating expenses increase by 4.5% annually. Under these conditions, the 10-year average DSCR is 2.3x and the year-five leverage is 5.5x. Coverage levels dip below 2.0x in outer years of the rating 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 rating case conditions to occur.

SECURITY

The TIFIA loan and outstanding transportation facilities project revenue 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)				
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

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

Infrastructure and Project Finance Rating Criteria (pub. 23 Aug 2021) (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, v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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