FITCH RATES MARYLAND TRANSPORTATION AUTH'S 2019 $50MM REV BONDS; AFFIRMS OUTSTANDING AT 'AA'

Fitch Ratings-New York-29 May 2019: Fitch Ratings has assigned a 'AA' rating to Maryland Transportation Authority's (MDTA) $50.5 million series 2019 transportation facilities projects revenue refunding bonds. In addition, Fitch has affirmed MDTA's approximately $1.6 billion in outstanding transportation facilities project revenue bonds at 'AA'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The rating reflects MDTAs 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 strong rate-making ability. The rating is supported by robust financial metrics under Fitch's rating case scenario, with a high 10-year average debt service coverage ratio (DSCR) of 2.8x, and moderate projected leverage (net debt over cash flow) of 5.1 in 2023.

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.

Demonstrated Toll Increases - Revenue Risk (Price): Stronger
Demonstrated Toll Increases: 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. The toll cut in FY 2016 may signify a fundamental policy shift that causes some uncertainty regarding future independent rate setting ability. 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 $3.1 billion 2019-2024 capital program focuses on preservation and addresses system expansion and congestion relief. The program is nearly two-thirds funded as pay-go, with the remaining one-third 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 at a total cost of $744 million.

Conservative Debt Structure - Debt Structure: Stronger
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 $2.325 billion rising to $3.0 billion after 2020. The replacement of the $81 million in cash-funded debt service reserves with surety policies is somewhat mitigated by the authority's strong cash position, with an estimated 641 days of unrestricted cash on hand as of fiscal year end 2019; however, balances are expected to diminish as the authority executes 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 2.8x, but dips below below the 2.0x target by 2027 if the authority continues to issue debt annually after the completion of the 2024 capital plan and does not increase tolls. Net

debt-to-cash-flow available for debt service increases from 2.4x to a max of 6.6x in the rating case as debt is issued annually through 2028. The debt forecast is conservative since the authority expects to have lower than expected capital expenditures in fiscal 2019 and could potentially delay expected new issuances in 2020. The metrics do not include revenue from the Hatem Bridge, a General Account project, which generated $11 million in toll revenues in 2018.

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 average rating case debt service coverage ratios 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

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.

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.

TRANSACTION SUMMARY

MDTA expects to issue $50.5 million in transportation facilities projects revenue refunding bonds series 2019. Proceeds will fully refund the series 2009A bonds. The fixed rate bonds are on parity with the outstanding bonds and mature in 2023. The refinancing is expected to provide a net present value of savings of $4.1 million. The series 2019 bonds will be secured by a pledge of the authority's net revenues generated through facility operations.

CREDIT UPDATE

Performance Update

Fiscal 2018 legacy facility traffic decreased by 0.3%, while toll revenue increased 0.4% from fiscal 2017. Traffic growth on the Intercounty Connector grew 5.4% and the I-95 Express Toll Lanes (ETL) increased 4%, resulting in system-wide traffic growth of 1%. Total operating expenses paid from pledged revenue grew 1.7% in fiscal 2018, mainly due to an increase in collection, police patrol, and maintenance expenses.

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. All electronic tolling is expected to start on the Francis Scott Key Bridge and Thomas J Hatem Bridge in October 2019.

Fitch Cases

Fitch's base case utilizes sponsor-projected revenues, expenses, capital spending, and cash balances, through 2024 and no toll increases through 2028. Fitch also incorporated the expected $1.1 billion in additional debt from fiscal 2020 through 2024 to support the capital plan as well as annual debt issuances thereafter. The authority maintains strong metrics with an average DSCR of 3.1x from 2019-2028 and year-five leverage of 4.5x in 2023.

Fitch's rating case assumes a 4% traffic stress in 2021, generally in line with previous recessions, followed by 1% annual revenue growth and no toll increases through 2028. Annual growth in operating expenses is stressed 0.5% above base case growth rates (of approximately 4.0%). 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 2019-2028 averages 2.8x, and year-five leverage is 5.1x 2023. Leverage peaks at 6.6x in 2028 due to new debt issuances. A toll increase would be needed in 2027 to maintain the DSCR above 2.0x. 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.

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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)