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Public Finance

Revenue
New Issue

Maryland Transportation Authority

Ratings

New Issue
Transportation Facilities Projects Revenue Bonds, Series 2008 AA–

Outstanding Debt
Transportation Facilities Projects Revenue Bonds AA–

Rating Outlook

Stable

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New Issue Details

Sale Information: $573,305,000 Transportation Facilities Projects Revenue Bonds, Series 2008, expected to sell during the week of March 10 via competition.
Purpose: Fund construction and improvement of certain transportation facilities projects, meet the reserve subaccount requirement, and pay costs of issuance.
Final Maturity: July 1, 2041.

Related Research

- *Maryland Transportation Authority, Sept. 7, 2007*
- *Maryland Transportation Authority, May 17, 2007*
- *Global Toll Road Rating Guidelines, March 6, 2007*

Rating Rationale

- The Maryland Transportation Authority's (MdTA, or the Authority) toll revenues are derived from a diverse system of six mature assets that serve high-volume markets.
- The MdTA has a high level of economic rate-making ability and a positive financial track record and has increased toll rates over the past several years.
- The authority's growing but manageable debt burden, favorable cash balances, and strong historical debt service coverage have created a high level of financial flexibility.
- External funding support from the State of Maryland for a portion of the Intercounty Connector project (ICC) provides the authority with a strong financial position from which to undertake its significant capital improvement plan (CIP).
- The MdTA's cooperative relationship with the Maryland Department of Transportation (MDOT) helps the authority manage its support for other state transportation projects.
- The MdTA's existing commuter toll-discount program poses a constraint on its financial margins.

Key Rating Drivers

- Use of ratemaking flexibility to maintain 2.0 times (x) coverage.
- Ability to control operating expenses through continued cost-containment measures and prudent management of future operating expenses on expansion projects.

Credit Summary

The primary credit challenge facing the MdTA is managing its growing capital obligations on the existing system while undertaking the ICC. During fiscal years 2003–2007, the authority experienced greater than inflationary adjusted operating expense growth of an average of 13% annually. However, management has made significant progress to reduce expenses in fiscal 2008. In Fitch Ratings' view, the MdTA's toll increases in anticipation of the CIP, strong cash position, current low debt burden, and continued rate-making ability provide it financial flexibility to manage its increasing obligations for the existing toll facilities and the ICC, as well as absorb potential downside events. Although additional debt issuance is expected to erode coverage in the future, Fitch expects MdTA, consistent with the 'AA–' rating, to manage the pace of borrowing, implement additional toll increases, control operating expense growth, and adjust its discount program as needed to maintain debt service coverage at about 2.0x and cash balances at the authority's policy rate of 1.0x annual toll revenues.

Security Provisions

Security: The bonds are secured primarily by net revenues of the transportation facilities projects (after payment of operating expenses) and certain pledged accounts.

Flow of Funds: All rentals, rates, fees, tolls, and other revenues from the pledged transportation facilities projects and the nonpledged general account projects are deposited promptly into the operating account. General account project revenues flow

Rating History

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	2/27/08
AA–	Affirmed	Stable	9/4/07
AA–	Affirmed	Stable	7/7/06
AA–	Assigned	Stable	5/28/04

directly to the payment of general account project-related costs and are not considered in the calculation of pledged net revenues.

On or before the 20th day of each month, the MdTA pays from the operating account in the following order to:

- Set aside or pay the trustee money in excess of the operating expense reserve of 20% of that fiscal year's budget.
- Bond service subaccount in an amount equal to one-sixth and $^1/_{12}$ of the next interest and principal payments, respectively.
- Operations and maintenance (O&M) reserve account, an amount as required in the annual budget.
- Reserve subaccount, an amount equal to $^1/_{23}$ of a deficiency, if any.
- Junior obligations account, as required for the subordinate debt obligations, if any.
- General account; funds deposited into the general account may be transferred to any other account created under the trust agreement, applied to general account projects, used to pay swap termination fees, if any, or deposited into the transportation authority fund. Resources deposited into the transportation authority fund are not required for the authority's obligations and may, upon approval of the Maryland Secretary of Transportation and the Maryland Board of Public Works, be transferred to the transportation trust fund of MDOT.

Rate Covenant: The authority covenants that, subject to any lawful regulation by the U.S., it will fix, revise, charge, and collect rental, rates, fees, tolls, and other charges so that net revenues each fiscal year are no less than the sum of 1.20x ADS and 100% of the annual budget amount to be deposited into the O&M reserve account.

Additional Bonds: New money bonds may be issued to pay for improvements to or additional transportation facilities projects provided that: net revenues for any 12 consecutive months of the previous 18 months are not less than 1.20x ADS for the current bond year plus 100% of the O&M reserve account deposit requirements; net revenues for the current bond year and for each year to and including the fourth year after the completion of the project or improvement to be financed are not less than 1.20x ADS for outstanding and additional bonds and 100% of the annual O&M reserve account deposit requirements; estimated net revenues projected for the fifth bond year following completion of the project or improvement to be financed are not less than 1.20x MADS for the outstanding and additional bonds and 100% of the annual O&M reserve account deposit requirements; and there is no event of default.

Fitch views the authority's amendments to its additional bonds test under the second amended and restated trust agreement as not material and comparable with covenants offered by other toll-road entities. Specifically, the authority has changed the historical test calculating net revenues to one based on 12 consecutive months of the prior 18 months, rather than four consecutive quarters of the six most recently reported fiscal quarters. In addition, the amendments clarify that projected debt service coverage for the purposes of the additional bonds test is based on estimated net revenues. The following other trust agreement amendments are viewed as credit-neutral by Fitch, as they require the annual budget and audited financial statements be provided in accordance with the authority's disclosure filing and at the request of bondholders; eliminate the requirement for a quarterly report; and state that the money in the operating account shall be invested from time to time, as long as the investment matures or redeems within five years of the date of such investment.

Reserve Subaccount Requirement: A reserve subaccount equal to the least of MADS, 125% of average ADS, or 10% of bond proceeds provides added security. The reserve subaccount requirement may be met by cash, securities, or a surety.

Reclassification of General Account Projects: The authority may reclassify any general account project as a transportation facilities project provided that, on the reclassification date, the MdTA can estimate that: if five bond years have not elapsed following completion or acquisition of the project, the project's revenues in the fifth year and each year thereafter will be not less than its current expenses and O&M reserve account deposit requirements; or, if five years have elapsed following completion or acquisition of the project, the project's revenues in the current bond year and each year thereafter are no less than its current expenses and O&M reserve account deposits.

Maryland Transportation Authority

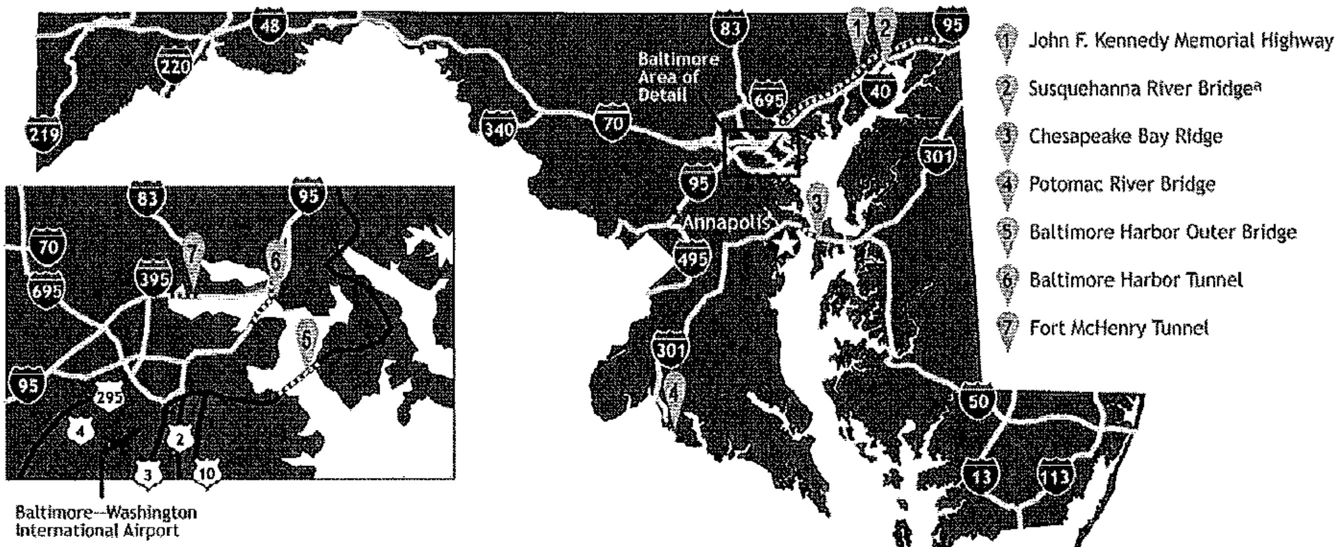
The MdTA was established by the Maryland General Assembly in 1971 and is responsible for the construction, operation, maintenance, and repair of certain revenue-producing transportation facilities projects. The authority is governed by the Maryland Secretary of Transportation as chairman and eight members appointed by the governor with the advice and consent of the state senate. The MdTA's executive secretary is responsible for the daily operations, maintenance, and coordination of the authority's facilities and is supported by: the deputy executive secretary; chief financial, administrative, and planning officers; the chief engineer; directors of communications and operations; and the MdTA's chief of police.

Transportation Facilities Projects

The pledged transportation facilities projects operated by the MdTA include the following:

- Potomac River Bridge, also known as the Harry W. Nice Memorial Bridge, which is located on U.S. Highway 301 (U.S. 301) and extends approximately two miles across the Potomac River, connecting Charles County, MD to the city of Dahlgren, VA. Tolls are collected only in the southbound direction.

Maryland Transportation Authority Toll Facilities



[a]General account project.

- Chesapeake Bay Bridge, also known as the William Preston Lane, Jr. Memorial Bridge, which consists of one two-lane span and one three-lane span and is located on U.S. Highway 50 and U.S. 301. The bridge spans four miles across the Chesapeake Bay from the city of Annapolis, MD to the city of Stevensville, MD. Tolls are collected in the eastbound direction.
- Baltimore Harbor Tunnel, a four-lane facility consisting of two tubes running underneath the Baltimore Harbor. The facility also includes 17 miles of approach roads (Interstate 895 [I-895]) that connect with Interstate 95 (I-95) north and south of Baltimore. Tolls are collected in both directions.
- Baltimore Harbor Outer Bridge, also known as the Francis Scott Key Bridge, a 1.4-mile, four-lane bridge that is part of a 10.9-mile facility functioning as a link in the Baltimore Beltway (Interstate 695). Tolls are collected in each direction at the bridge.
- Fort McHenry Tunnel, a four-tube, eight-lane facility crossing the northwestern branch of the Patapsco River in Baltimore that links the city of Canton on the eastern side of Baltimore Harbor with the city of Locust Point on the western side of the harbor. Tolls are collected in both directions at the tunnel.
- John F. Kennedy Memorial Highway, a 49.4-mile section of I-95 from its intersection with I-895 at Baltimore's northeastern boundary to the Maryland-Delaware state line, and a seven-mile section of I-95 between White Marsh Boulevard and I-895 that was assumed by the authority from the Maryland State Highway Administration in 1991. Tolls are collected in the northbound direction one mile north of the Millard Tydings Memorial Bridge, which crosses the Susquehanna River. As part of this facility, the MdTA owns and leases the Maryland House and the Chesapeake House service and concession areas.
- Intercounty Connector: The ICC is a proposed 18-mile, six-lane east-west highway in Washington, D.C.'s Maryland suburbs that will link Interstate 270 to I-95/U.S. Highway 1. The ICC will use open-road electronic tolling. Total cost of the ICC is projected at $2.45 billion, $1.2 billion of which will be funded from toll revenue bonds and a potential federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

General Account Projects

The nonpledged general account projects operated by the authority include the following:

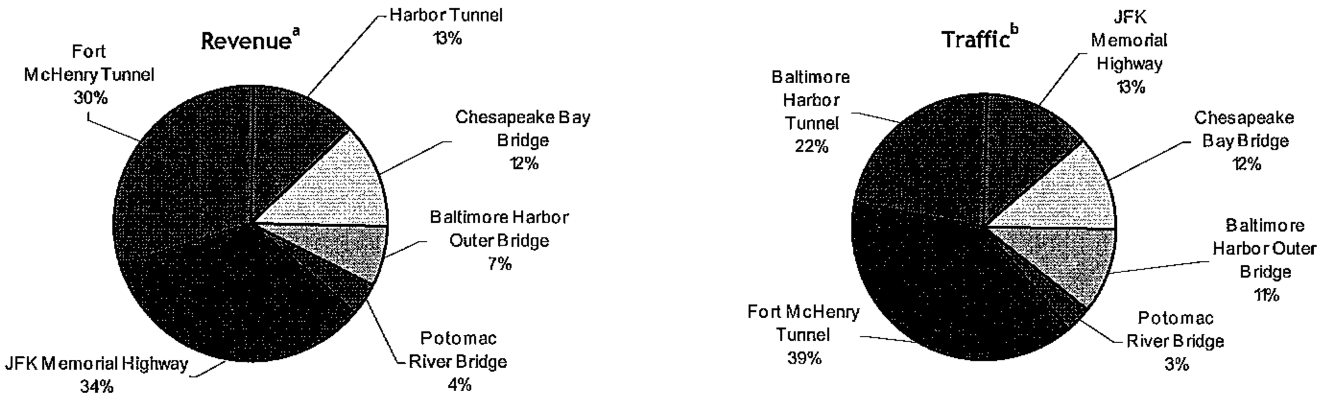
- Susquehanna River Bridge, also known as the Thomas J. Hatem Memorial Bridge, a four-lane facility extending about five miles across the Susquehanna River between the cities of Havre de Grace and Perryville, MD. Tolls are collected in the eastbound direction.
- Seagirt Marine Terminal, which was developed by the authority on behalf of the Maryland Port Administration (MPA). The MPA makes annual payments to the MdTA for these facilities based on separate lease agreements.
- Masonville Auto Terminal; through an agreement with the MPA, MDOT, and the MdTA, the MdTA provided $20 million to finance the development of a 43-acre automobile processing facility near the Baltimore Harbor Tunnel. The MdTA will be repaid in 20 annual payments of $1.7 million.

Relationship with Maryland Department of Transportation

Acting on behalf of MDOT, the authority also finances and constructs other transportation projects and provides law enforcement at port and airport facilities. The MdTA has served as a conduit, financing certain transit-parking facilities in Prince

George's County, MD (lease revenue bonds rated 'AA–' by Fitch) and Baltimore-Washington International Airport (airport parking revenue bonds rated 'A–' and passenger facility charge revenue bonds rated 'A' by Fitch). Debt service on these conduit financings is separately secured and not paid by the transportation facilities projects' revenues. The authority has also issued grant and revenue anticipation bonds separately secured by federal aid and state transportation trust fund tax sources (MDOT rated 'AA' by Fitch) as part of financing for the ICC.

Distributions by Facility
(Fiscal 2007)



[a]$ Millions. [b]Transactions. Note: Numbers may not add to 100% due to rounding.
Source: Maryland Transportation Authority.

Traffic and Revenue Profile

The MdTA's six transportation facilities projects serve a diverse and mature travel market, including intercity, urban commuter, and recreational travel. The competitiveness of these facilities relative to alternative routes provides the authority with a high level of toll pricing power. The Fort McHenry Tunnel, Baltimore Harbor Tunnel, and John F. Kennedy Memorial Highway are the authority's largest facilities, measured by traffic, and accounted for 39%, 22%, and 13% of total fiscal 2007 transactions, respectively. Reflecting the authority's tolling strategy that occasional and interstate travelers pay the higher cash tolls and Baltimore area commuters benefit from bulk purchase discounted tolls, the John F. Kennedy Memorial Highway generated the most toll revenues at 34% of the total, followed by the Fort McHenry Tunnel at 30% and the Baltimore Harbor Tunnel at 13%.

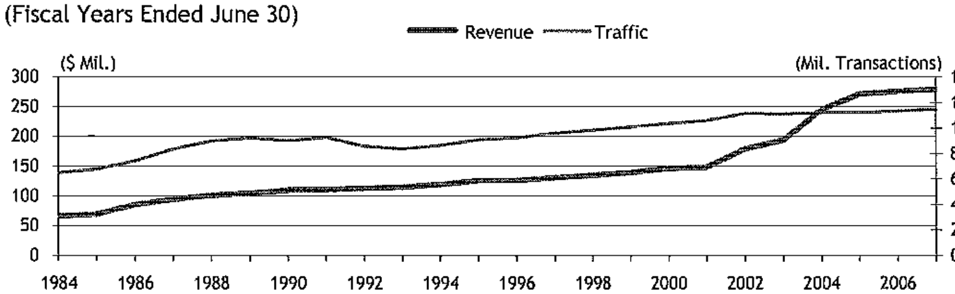
Tolls are payable in cash or through E-ZPass electronic toll collection. E-ZPass participation rates are about 50% at the Baltimore Harbor crossings, John F. Kennedy Memorial Highway, and Chesapeake Bay Bridge, reflecting the concentration at these facilities of commuters who can take advantage of multiuse discounts and intercity travelers who may have access to E-ZPass in their home region. The Potomac River Bridge had a lower participation rate of 28% as of fiscal 2007.

Prior to the fiscal 2002 and fiscal 2004 increases, toll rates had changed little. The two increases together resulted in a doubling of the automobile cash tolls at the three Baltimore Harbor crossings and a 150% increase on the John F. Kennedy Memorial Highway. The increases were similar for multi-axle vehicles.

However, the discounted commuter tolls were not increased in fiscal 2002 and fiscal 2004.

The toll rate increases had the effect of raising the discount level to roughly 80% systemwide from the previous 60%. Reflecting the combined impacts associated with the toll increases, higher commuter discounting, and stable toll rates at the Chesapeake Bay Bridge, the average toll paid since fiscal 2001 has increased 73%. Although the authority's toll-discount program may pose a constraint on its financial margins, the MdTA has demonstrated high economic rate-making ability. Despite the toll increases, transactions grew an average 1.4% annually from fiscal years 2001–2005, while toll revenues grew 83%. Reflecting the MdTA's mature traffic base, toll revenues remained flat in fiscal 2006 at $274.8 million and grew 1.3% in fiscal 2007 to $278.4 million.

Traffic and Revenue
(Fiscal Years Ended June 30)



Source: Maryland Transportation Authority.

Passenger cars and light commercial vehicles, which made up 87% of traffic and 62% of revenue in fiscal 2007, were less sensitive to the toll increase than trucks. This may have been due, in part, to the availability of commuter discounts and higher price inelasticity among infrequent intercity and interstate travelers. Truck traffic fell by an average 0.5% annually from fiscal years 2001–2007, compared with a 0.5% average annual increase in car traffic.

Financial Operations and Forecast

Financial Summary
($000, Audited Fiscal Years Ended June 30)

	2003	2004	2005	2006	2007
Balance Sheet					
Operating Reserve Fund	33,249	32,308	34,857	35,442	38,207
Renewal and Replacement Fund	44,646	47,322	35,325	37,951	36,210
General Fund	207,475	139,748	168,804	263,328	170,881
Total Unrestricted Cash	285,370	219,378	238,986	336,721	245,298
Debt Service Reserve Fund	24,087	15,553	15,420	15,753	15,804
Construction Funds (From Bond Proceeds)	0	0	116,698	41,444	0
Other Restricted Reserve Fund	44,187	84,175	73,283	66,082	334,309
Total Restricted Cash	68,274	99,728	205,401	123,279	350,113
Available Cash	353,644	319,106	444,387	460,000	595,411
Receivables	7,849	28,901	31,661	43,551	63,717
Current Liabilities (Excluding Portion of Bonds Payable)	60,460	84,045	64,728	109,848	139,128
Net Working Capital	232,759	164,234	205,919	270,424	169,887
First Lien (Fixed-Rate Debt)	194,194	136,646	278,985	564,355	532,500

Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2003	2004	2005	2006	2007
Total Capital Markets Debt	194,194	136,646	278,985	564,355	532,500
Income Statement					
Two-Axle Traffic Toll Revenue	136,850	171,254	187,244	185,867	188,322
Multi-Axle Traffic Toll Revenue	60,160	77,624	87,500	88,981	90,103
Toll Revenue	**197,010**	**248,878**	**274,744**	**274,848**	**278,425**
Lease Revenue	8,286	8,138	7,962	7,808	8,086
Adjustment to Revenues	(3,201)	(3,618)	(3,693)	(3,879)	(3,780)
Investment Income (Pledged)	837	580	1,310	4,500	4,000
Gross Income	**202,932**	**253,978**	**280,323**	**283,277**	**286,731**
Maintenance	27,776	44,654	47,202	36,076	53,091
Administrative	23,829	16,434	17,850	36,216	55,674
Patrols and Security	34,190	35,390	38,436	40,096	31,672
Total Operating Expenses	**85,795**	**96,478**	**103,488**	**112,388**	**140,437**
Net Revenue Available for Debt Service and Other Obligations	**117,137**	**157,500**	**176,835**	**170,889**	**146,294**
First Lien Debt Service – Principal	14,240	19,855	22,205	19,465	15,388
First Lien Debt Service – Interest	6,962	5,967	6,649	9,873	8,692
Net Revenue After DS and Other Obligations	**95,935**	**131,678**	**147,981**	**141,551**	**122,214**
Major Renewal and Replacement Expenditures (Construction in Progress)	166,717	100,829	114,920	106,136	103,412
Other Revenue (Not Applied to DS, R&R, and Other Obligations)	27,461	43,806	54,629	101,419	143,836
Other Expenses	36,464	25,493	34,154	35,467	35,935
Net Income (After all Obligations)	**(79,785)**	**49,162**	**53,536**	**101,367**	**126,703**
Depreciation	52,403	51,315	54,092	58,038	62,526
Maximum Annual Debt Service (Senior)	27,668	32,615	32,615	32,330	24,445
Operational Ratios (%)					
Operating Margin	58.2	62.5	63.4	60.2	51.0
Pledged Investment Income as % of Gross Income	0.4	0.2	0.5	1.6	1.4
Maintenance as % of Gross Income	13.7	17.6	16.8	12.7	18.5
Administrative as % of Gross Income	11.7	6.5	6.4	12.8	19.4
Patrols and Security as % of Gross Income	16.8	13.9	13.7	14.2	11.0
Total Operating Expense as % of Gross Income	42.3	38.0	36.9	39.7	49.0
Net Working Capital as % of Gross Income	114.7	64.7	73.5	95.5	59.2
Maintenance as % of Total Expense	32.4	46.3	45.6	32.1	37.8
Administrative as % of Total Expense	27.8	17.0	17.2	32.2	39.6
Patrols and Security as % of Total Expense	39.9	36.7	37.1	35.7	22.6
Liquidity Ratios					
Unrestricted Cash to Debt (%)	1.5	1.6	0.9	0.6	0.5
Available Cash to Debt (%)	1.8	2.3	1.6	0.8	1.1
Unrestricted Cash to Expense (%)	3.3	2.3	2.3	3.0	1.7
Available Cash to Expense (%)	4.1	3.3	4.3	4.1	4.2
Cushion Ratio (x)	10.3	6.7	7.3	10.4	10.0
Days Cash on Hand	1,214.1	830.0	842.9	1,093.6	637.5
Debt Statistics and Portfolio					
First Lien Debt Service Coverage (x)	5.5	6.1	6.1	5.8	6.1
Coverage on All Obligations (x)	5.5	6.1	6.1	5.8	6.1
MADS Coverage (x)	4.2	4.8	5.4	5.3	6.0
Senior Debt Service as % of Gross Income	10.4	10.2	10.3	10.4	8.4
Debt to Net Working Capital (%)	83.4	83.2	135.5	208.7	313.4
Senior Lien (Fixed-Rate Debt) (%)	100.0	100.0	100.0	100.0	100.0

Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2003	2004	2005	2006	2007
Lane Mile Statistics and Utilization					
Lane Miles	553	553	553	553	553
Gross Income per Lane Mile ($)	367.0	459.3	506.9	512.3	518.5
Total Operating Expenses per Lane Mile ($)	155.1	174.5	187.1	203.2	254.0
Senior Debt Service per Lane Mile ($)	38.3	46.7	52.2	53.1	43.5
MADS per Lane Mile ($)	50.0	59.0	59.0	58.5	44.2
Long-term Debt per Lane Mile ($)	351.2	247.1	504.5	1,020.5	962.9
Financial Margin per Lane Mile ($)	173.5	238.1	267.6	256.0	221.0
Two-Axle Traffic	106,900	107,928	108,203	109,247	110,711
Multi-Axle Traffic	9,020	9,363	9,384	9,408	9,489
Total Traffic	**115,920**	**117,291**	**117,587**	**118,655**	**120,200**
Passenger Traffic as % of Total Traffic	92.2	92.0	92.0	92.1	92.1
Commercial Traffic as % of Total Traffic	7.8	8.0	8.0	7.9	7.9
Passenger Toll Revenue as % of Total Revenue	69.5	68.8	68.2	67.6	67.6
Commercial Toll Revenue as % of Total Revenue	30.5	31.2	31.8	32.4	32.4
Cash Tolls ($)	134,856	158,278	160,112	131,459	132,964
Electronic Tolls ($)	62,768	90,723	114,639	147,335	149,278
Total Tolls ($)	**197,624**	**249,001**	**274,751**	**278,794**	**282,242**
Cash Tolls as % of Total Tolls	68.2	63.6	58.3	47.2	47.1
Electronic Tolls as % of Total Tolls	31.8	36.4	41.7	52.8	52.9

Note: Numbers may not add due to rounding.

The MdTA's strong current financial position provides it with the flexibility to undertake its significant CIP. Pledged revenues, excluding those from general account projects, intergovernmental grants, and other revenues, grew at an average annual 11% from fiscal years 2001–2007, primarily reflecting the effects of the toll increases. Thereafter, with limited traffic growth that is in line with recent trends and planned, periodic toll increases, the authority projects pledged revenues to grow nearly 9% annually through the medium term.

Escalating salary and benefit expenses, as well as E-ZPass service center-related costs, contributed to an 8% average annual rise in operating expenses from fiscal years 2001–2006. The MdTA's operating expenses grew another 25% in fiscal 2007 due, in part, to the reclassification of certain insurance and equipment costs from the O&M reserve to operating expenses. Reflecting additional salary, benefits, and E-ZPass-related costs, as well as the incremental operating expenses associated with the opening of the ICC, the authority projects operating expense growth to continue at an average rate of about 12% annually through fiscal 2013, with more normalized growth of about 5% annually thereafter. Higher than inflationary cost increases, combined with the MdTA's toll-discount program, may potentially constrain financial margins as the MdTA ramps up its CIP and increases its leverage. To maintain financial flexibility, the authority is examining alternative toll-rate adjustment and cost-containment strategies. For the fiscal year to date, the MdTA has managed to achieve single-digit operating expense growth due to certain cost-containment measures.

Debt service coverage equaled 5.8x in fiscal 2006 and 6.1x in fiscal 2007. Since fiscal 2002, debt service coverage has been at least 4.5x. Net revenue coverage of debt service and O&M reserve account deposits has remained at about 2.0x since fiscal 2002.

Including the series 2008 bonds, the MdTA has a manageable debt burden of $43.5 million per lane mile. Prior to its issuance of the series 2004 bonds, the MdTA funded its capital needs primarily on a pay-as-you-go basis and retained surplus funds in its general account. The MdTA's cash position, including bond proceeds, was a strong $596.4 million as of fiscal 2007, which met its internal policy of a cash-to-toll revenues ratio of at least 1.0x.

Since the ICC is expected to provide no more than 10% of total revenues by fiscal 2015, existing toll facilities are likely to cross-subsidize the ICC's debt service needs for an extended period. However, 51% of the project's funding — which is to be derived from: grant and revenue anticipation bond proceeds; MDOT, state of Maryland, and federal cash contributions; and, to a lesser extent, the MdTA's pay-as-you-go funding — helps moderate the level of cross-subsidization and preserve debt capacity for existing facility needs.

Given that the ICC toll system will be based on an all-electronic open-road tolling concept, toll revenue may be less than expected if toll evasion is more than projected. While the ICC is not dependent on future development, given the mature and congested travel market it will serve, it is subject to forecast risk where toll revenue may be adversely affected by lower than expected demand, shorter trip lengths might lessen the average toll paid, economic growth could slow, or a less than anticipated toll-user value of time could reduce the ICC's perceived competitiveness. Under such a downside scenario, a greater level of debt service subsidy from existing toll facilities would be required, thus potentially constraining the authority's financial margins and requiring additional toll increases.

Traffic projections take into account the low traffic growth rate of the past few years. Fitch's forecast assumes an 85-cent average toll increase in fiscal years 2009 and 2011. After fiscal 2011, toll growth is assumed to be inflationary based on the regional CPI. Traffic growth is assumed to be flat in fiscal years 2009 and 2011, with gains of 1.0% and 0.5% in Fitch's base and stress cases, respectively. ICC traffic and revenue numbers have been discounted to accommodate the forecast risk involving a project that is not yet operational. Under these projections, debt service coverage drops below 2.0x in about fiscal 2013 but rises again once ICC is operational. In general, the coverage maintains a healthy rate of 1.5x across the base and stress case scenarios.

The authority's toll increases in anticipation of the CIP, as well as its strong cash position, current low debt burden, and continued rate-making ability provide financial flexibility to manage increasing obligations for existing toll facilities and the ICC, as well as absorb potential downside events. Although additional debt issuance is expected to erode coverage in the future, Fitch expects the MdTA, consistent with its 'AA–' rating, to manage the pace of borrowing, implement additional toll increases, control operating expense growth, and adjust its discount program as needed to maintain debt service coverage at about 2.0x and cash balances at the authority's policy level of 1.0x annual toll revenues.

Capital Improvement Plan

The MdTA's fiscal years 2008–2013 CIP of $4.4 billion is $170 million more than its fiscal years 2006–2011 CIP. The largest component encompasses $2.2 billion for the ICC, which has a total cost of $2.4 billion, including prior years' expenditures. About $1.2 billion is for road widening and interchange improvements for the John F. Kennedy Memorial Highway. The balance of the CIP is for facility-specific and systemwide rehabilitation, painting, and improvement projects.

The MdTA expects to finance its CIP by issuing a total of $2.6 billion in bonds and, potentially, parity TIFIA loans. Grant and revenue anticipation bonds and state and federal funding for the ICC would provide $711 million. The balance would be derived from authority pay-as-you-go funding.

Economy

Maryland's economy benefits from proximity to the nation's capital, with federal government and related employment a key component. The state is among the wealthiest in the U.S. and ranked fourth nationally in 2006 personal income per capita. The softening housing market is leading to rising inventory and falling sales, which is affecting construction and its related sectors, as well as associated tax collections. Job growth continued to be steady but was less than comparable U.S. figures, with 2006 employment increasing 1.2%, compared with 1.8% for the nation. During December 2007, the Washington, D.C. metropolitan area registered the lowest jobless rate among U.S. metropolitan areas at 3.0%, compared with the national unemployment rate of 4.8%. Growth continued to be strongest in services, with professional and business services up 2.2% year over year from 2006. The education and health services sector gained 1.9%, and the leisure and hospitality sector climbed 1.7%. Government employment was flat, but it remained a much larger employer in Maryland at 17.7%, compared with 16.1% for the U.S.