MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades to Aa2 from Aa3 Maryland Transportation Authority's Revenue Bonds, Outlook is stable

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Approximately $1billion of outstanding debt affected

New York, August 14, 2018 -- Moody's Investors Service ("Moody's") has upgraded to Aa2 from Aa3 the rating on Maryland Transportation Authority's Transportation Facilities Revenue bonds. The rating outlook has been revised to stable from positive.

RATINGS RATIONALE

The rating upgrade to Aa2 is based on the recent sizable debt repayment with excess cash which has increased debt capacity and reduced debt service costs. This will allow the authority to layer new debt issuances through 2024 while maintaining strong debt service coverage ratios (DCSRs) and low debt ratios without any planned toll rate increases. The essentiality of the authority's road network, the fundamental strength of the service area, a demonstrated ability and willingness to raise tolls to support capital projects when needed, and conservative financial practices further support the rating upgrade. The authority also has recently completed significant capital projects that have added to the revenue base, and the system has demonstrated better than expected elasticity of traffic demand to recent sizable toll increases, which have produced traffic and revenue levels above projections.

The authority has a sizable six-year capital program which is expected to be one third debt funded. The program incorporates high maintenance and replacement costs given the age of some of the system's assets, as well as the recently announced additional express toll lanes' expansion project. We expect financial liquidity to decline going forward as two-thirds of the program will be paid with internally generated funds. Further, the anticipated replacement of the existing cash funded debt service reserve with surety policies from high credit quality providers is viewed as an additional use of cash, and a move away from the strong liquidity position maintained historically. This lower level of liquidity is partially mitigated by the projected strong DSCRs and maintenance of low leverage as measured in debt to operating revenues going forward.

RATING OUTLOOK

The stable outlook reflects our expectation of continued growth in traffic and revenue based on historical traffic trends and results year-to-date, the recent sizable repayment of outstanding debt which has strengthened DSCRs and debt ratios. The outlook also incorporates higher net increases in leverage than previously estimated and lower liquidity going forward relative to historical levels.

FACTORS THAT COULD LEAD TO AN UPGRADE

The rating is unlikely to be upgraded going forward, however continued significant and sustained higher-than-projected traffic levels, successful completion of planned capital projects, toll revenues that support DSCRs above 3.0x and debt to operating ratios of less than 3.0x while maintaining strong liquidity could exert upward pressure on the rating.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Lower traffic and revenue levels than assumed in the authority's base case forecast, significantly higher debt financing of the capital program than currently envisioned, a sustained decline in the DSCR below 3.0x, or liquidity below 365 days could exert downward pressure on the rating.

LEGAL SECURITY

The revenue bonds are secured by a pledge of net revenues from seven of the authority's eight toll facilities. The authority's rate covenant requires net revenues to be at least the sum of 1.2x annual debt service and 100% of the amount required to be deposited in the maintenance and operations reserve account. The additional bonds test requires the rate covenant to be met on a 5-year prospective basis.

The bonds are additionally secured by a cash-funded debt service reserve sized at the lesser of maximum annual debt service, 125% of average annual debt service or 10% of the principal amount of the bonds, however the authority is in the process of replacing the cash funded reserve with surety policies this fiscal year with high credit quality providers.

In 2015, legislation was passed that increased the authority's debt service coverage requirement from 2.0x to 2.5x, temporarily reduced a statutory ceiling for toll-revenue backed debt to $2.325 billion from $3 billion until 2020, and established minimum annual operating and capital budgets of $275 million each year through FY 2020.

Debt outstanding as of FYE 2017 was $2.264 billion, however the authority refunded $282.65 million of Series 2007 bonds and made an equity contribution of $100 million on July 27, 2017. Following the refunding and partial defeasance, the authority's debt outstanding was $2.151 billion. Proforma for the most recent Series 2008 debt repayment on June 29, 2018, total debt outstanding was reduced to just over $1.5 billion.

PROFILE

The authority is an independent agency with autonomous rate-setting authority, however the secretary of the Maryland Department of Transportation (MDOT), also serves as chairman of the authority's 8-member board. Boards members are appointed by the governor (and confirmed by the state senate). The two agencies work together to address state-wide transportation needs and this high level of coordination benefits the authority as it undertakes capital projects. From 2003 up until 2007 the authority made annual payments of $43 million to MDOT for mass transit projects, which it is permitted to do per its bond indenture. In 2002 the transfer was $21.3 million. The authority has no plans to reinstate the transfers at this time.

The authority owns and operates 8 facilities, of which revenues from 7, are deemed Transportation Facilities Projects, and the revenues are pledged to the bonds: the John F. Kennedy Memorial Highway; the Fort McHenry Tunnel; the Baltimore Harbor Tunnel; the Francis Scott Key Bridge (formerly the Baltimore Harbor Outer Bridge); the Governor Harry W. Nice Memorial Bridge (formerly the Potomac River Bridge); the Chesapeake Bay Bridge; and the ICC. The last facility is the Thomas J. Hatem Memorial Bridge (formerly the Susquehanna River Bridge), which the authority operates as a General Account Project.

METHODOLOGY

The principal methodology used in these ratings was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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