FITCH AFFIRMS MARYLAND TRANSPORTATION AUTHORITY'S TRANSPORTATION FACILITIES PROJECT REVS AT 'AA-'

Fitch Ratings-New York-15 May 2015: Fitch Ratings has affirmed Maryland Transportation Authority's (MDTA) approximately $2.17 billion of outstanding transportation facilities project revenue bonds at 'AA-'. The Rating Outlook is Stable.

The rating reflects resilient traffic performance on legacy facilities despite cumulative toll increases over the past three years of 60 - 140%, leading to a corresponding increase in revenue. Although debt service has also increased over the period relating to new debt funding the Inter County Connector (ICC) and other capital projects, coverage and leverage both remain healthy, and commensurate with the current rating. As major capital works projects come to an end, Fitch expects toll rates to stabilize for forthcoming years with limited amounts of additional debt projected over that time frame. Recent toll cuts raise some concerns. Further clarity from management on the authority's long term toll policy will be essential for credit stability; further reductions going forward could signify a shift in policy flexibility and coverage levels leading to downward rating pressure.

KEY RATING DRIVERS

Revenue - Volume: Stronger
Critical Transportation Network: MDTA revenues are derived from a diverse system of seven mature assets and the ICC that provide critical transportation links in a high volume market with limited competing facilities.

Revenue - Price: Stronger
Demonstrated Toll Increases: The authority has consistently demonstrated strong ability to raise rates to maintain financial performance and meet internal policies. This ratemaking ability is supported by the facilities' affluent service areas comprising Baltimore and Washington D.C. metropolitan statistical areas. Beyond the recent toll cut, further cuts may signify uncertain independent rate setting ability of the authority going forward.

Infrastructure & Renewal: Mid-Range
Prudent Capital Planning: The authority's facilities are in good condition. The 2015-2020 capital program mostly addresses system preservation and congestion relief, now that significant investment projects are largely completed. The program will mostly be cash-funded with limited additional debt expected.

Debt Structure: Stronger
Conservative Debt Structure: The authority operates according to a policy of maintaining DSCR above 2.0x, unencumbered cash above $350 million, and a statutory bond cap of $3 billion.

Strong Financial Performance: MDTA has a demonstrated track record of producing solid debt service coverage ratios (DSCR) and maintaining moderate leverage, and retains a high level of financial flexibility. The Fitch base case DSCR averages 3.07x and remains significantly above the authority's target of 2.0x in all periods; in its rating case Fitch expects DSCR to average 2.33x, falling no lower than 1.80x, and leverage to peak no higher than approximately 5.14x, consistent with its current rating.

Peer Group

Florida's Turnpike and MDTA are characterized as essential facilities with strong catchments and limited direct competition. Both have considerable ongoing capital needs. Additionally, maximum annual debt service coverage for both facilities is comparable at close to or above 2.0x.

RATING SENSITIVITIES

Negative:
--An unclear long-term toll policy and/or further toll reductions.
--Under-performance of traffic and revenue, inability to raise tolls to preserve financial margins, unmanageable expense growth, and growing deferral of life cycle preservation cost would pressure financial profile.

Positive:
--A positive rating action will be unlikely in the context of the recent toll cuts until leverage associated with the authority's capital program, is significantly reduced.

CREDIT UPDATE

In September 2011 the board approved a multi-phase adjustment to toll rates on its facilities. As a result tolls were adjusted on Nov. 1, 2011, Jan. 1, 2012, and July 1, 2013. These increases had the effect of increasing tolls by between 60% and 140% across its various legacy facilities over this period, with relatively small effect on traffic: aggregate traffic fell from 116.3 million in fiscal year (FY) 2010, ending June 30, to 112.5 million in FY 2014, reflecting compound annual growth rate of -0.8% over the period, while at the same time toll revenue across the portfolio increased dramatically, from $308.5 million in FY 2010 to $574.0 million in FY 2014 (a 16.8% CAGR).

On May 7, 2015, the MDTA Board approved a package of toll and fee cuts for a targeted $53.4 million reduction in annual toll revenues beginning in FY 2016. These reductions include changes to the toll rates at the Bay Bridge and Intercounty Connector, elimination of the monthly maintenance fee for certain E-ZPass account holders, an increase in the discount offered to Maryland E-ZPass customers, and other minor changes impacting multi-axel vehicles. To counter these toll reductions, the authority is planning to cut operating costs and reduce the 5-year capital plan by 1-2% and further detail on the composition of these savings is expected following the June 2015 board meeting.

The newly elected governor of the state has driven a decrease in tolls to reduce the burden on users of predominantly commuter facilities, and effectuated operational efficiencies from increased electronic toll usage thereby lowering costs. This strategy has its merits and its risks. As a public authority, tolls need to be set to largely cover costs with a reasonable margin. On the other hand, given increasing operating and capital needs in a congested and growing area, a strategic and reliable toll policy is an important credit consideration. Further, clarity from management will be essential.

Fitch's base case uses sponsor projections that assume approximately flat revenue growth through FY 2020 while operating expenses grow at a compound annual growth rate of 2.5% in that same period. Coverage reaches a minimum of 2.62x and averages 3.07x while net debt/CFADS remains below 6.0x. Fitch's rating case assumes a 50 bps rise in operating expenses and a 50bps reduction in revenues over base case assumptions after the sponsor projected period through FY 2020; coverage in this scenario reaches a minimum of 1.80x and averages 2.33x.

The authority's major capital investment activity of recent years is substantially complete. The ICC facility in the Washington DC suburbs opened the final sectors in November 2014 while the JFK facility opened express toll lanes in December 2014. Additionally, capital works included in the 2015-2020 plan, while substantial at approximately $2.0 billion in aggregate over the period, are largely focused on maintenance and renewal. Debt raising activity to fund capital works is expected to be limited in forthcoming years, mostly reflecting already committed undrawn TIFIA amounts.

SECURITY

The bonds are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from 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.

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Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (July 12, 2012);
--'Rating Criteria for Toll Roads, Bridges, and Tunnels' (Oct. 16, 2013).

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Rating Criteria for Infrastructure and Project Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867
Rating Criteria for Toll Roads, Bridges and Tunnels -- Effective Oct. 16, 2013 – Aug. 20, 2014
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720736