MOODY'S
INVESTORS SERVICE

Announcement: Moody's has updated the sale amount and use of proceeds of Maryland Transportation Authority's Transportation Facilities Projects Revenue Bonds, Series 2021A; Aa2 rating and stable outlook unaffected

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New York, March 18, 2021 -- Moody's Investors Service ("Moody's") reports that the changes in i) the sale description to Transportation Facilities Projects Revenue Bonds, Series 2021A from Transportation Facilities Projects Revenue Bonds, Series 2021, ii) the sale amount and iii) the use of proceeds for Maryland Transportation Authority's ("MDTA" or "the authority") Transportation Facilities Projects Revenue Bonds, Series 2021A, which we rated on March 9, 2021, will have no impact on the assigned Aa2 rating or the stable outlook on the Series 2021A bonds.

The sale description was updated to Transportation Facilities Projects Revenue Bonds, Series 2021A from Transportation Facilities Projects Revenue Bonds, Series 2021.

The amount of the bonds has been updated to up to $738 million from the previously cited $400 million for the Series 2021A bonds.

The use of proceeds was changed to contemplate the possibility of refinancing Series 2008A TIFIA loan and also to replace the funding of a reserve account by the payment of a premium of a surety policy to be used to fund a reserve account.

RATINGS RATIONALE

Maryland Transportation Authority's Aa2 rating reflects the essentiality of the authority's road network, the fundamental strength of the service area and its history of strong financial and operational performance. MDTA's rating also incorporates the authority's financial policies and history of conservative budgeting coupled with track record of exceeding its forecasts. This strong financial policy with a proven track record is one of the main strengths of this credit that somewhat mitigates the projected metrics being lower than peers. Taken together, these factors support the authority's board-approved $2.8 billion capital expenditure program spanning fiscal 2021 through fiscal 2026. The program is expected to be funded with internal liquidity combined with approximately $1.0 billion to be funded by debt, including the currently proposed $310 million new money portion of Series 2021A bonds. The increased leverage and debt service requirements coupled with the decline in liquidity could place pressure on the authority's current rating should toll revenues not keep pace with growing debt service requirements through either traffic growth or toll rate increases. The rating incorporates our expectation of the authority's willingness to maintain strong financial metrics by increasing toll rates or making other adjustments to preserve its financial position.

The rapid and widening spread of the coronavirus outbreak, the deteriorating global economic outlook, falling oil prices, and asset price declines, are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The toll road sector has been significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. As a result of the epidemic, already existing trends of lifestyle changes may accelerate, such as an increase in remote working and teleconferences that could negatively impact traffic volumes and reduce profits for toll roads.

RATING OUTLOOK

The stable outlook reflects our view that the authority's sound financial policy coupled with ample liquidity will cushion the impact from the short term disruption from the implementation of changes in the tolling system and from the coronavirus outbreak as traffic returns to normalized levels. The outlook also incorporates our expectation that the authority will take action as necessary to support toll revenues in order to keep its financial metrics in line with its current profile through the expected leverage increases.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- 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

- An increase in leverage resulting in adjusted debt to operating revenue above 4.5x

- Liquidity below 400 days cash on hand

LEGAL SECURITY

The Transportation Facilities Projects Revenue Bonds, Series 2021A are on parity with the authority's outstanding revenue bonds, which are secured by a pledge of revenues from the Transportation Facility Projects and from the General Account Project, which is subject to reallocation at the option of the MDTA. The authority's rate covenant requires net revenues, which include the Transportation Facility Projects, 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 outstanding municipal bonds are also secured by debt service reserve subaccounts sized at the lesser of maximum annual debt service, 125% of average annual debt service or 10% of the proceeds of the principal amount of the bonds, currently funded with a combination of surety policies and cash. Series 2021A reserve subaccount is expected to be funded with a surety policy to be issued by Build America Mutual Assurance Company (not rated).

USE OF PROCEEDS

The Series 2021A revenue bonds will be used i) to finance and refinance the design, construction and equipping of any additions, improvements and enlargements to a portion of the authority's capital expenditure program, ii) to possibly refinance Series 2008A TIFIA loan, iii) to pay the premium for Series 2021A surety policy and iv) to fund certain costs of issuance.

The authority is considering refinancing its Series 2008A TIFIA loan with a portion of the currently proposed Series 2021A bonds, depending on market conditions, and it expects this refinancing to result in net present value savings with no considerable changes to the debt service profile.

PROFILE

The authority is an independent agency with autonomous rate-setting authority, however the secretary of the state department of transportation, Maryland Department of Transportation (MDOT), also serves as chairman of the authority's 8-member board which is appointed by the governor (and confirmed by the 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.

The authority owns and operates 8 facilities, of which revenues from 7 are deemed Transportation Facilities Projects: 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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