

MOODY'S

RATINGS

Rating Action: Moody's Ratings revises Maryland Transportation Authority's outlook to negative from stable; affirms Aa2

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New York, April 09, 2024 -- Moody's Ratings has revised Maryland Transportation Authority (MDTA)'s outlook to negative from stable. At the same time Moody's affirmed the Aa2 rating on Maryland Transportation Authority (MDTA)'s revenue bonds, affecting approximately \$2.2 billion of debt outstanding.

The revision of the outlook to negative from stable reflects the uncertainty around the Francis Scott Key Bridge ("Key Bridge")'s replacement project's costs, including their funding, and timing. Any negative impact from the replacement project would be on top of financial metrics that were expected to narrow from capital investments prior to the loss of the bridge.

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 management and performance. Given MDTA's monopoly position in the Baltimore harbor crossings, we expect that the majority of Key Bridge's toll revenue, which represented only 7% of total toll revenue in 2023, will be diverted to the two tunnels owned and operated by MDTA in the service area (Fort McHenry and Baltimore Harbor tunnels). MDTA's rating also incorporates the authority's financial policies and history of conservative budgeting coupled with a 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 \$3.1 billion capital expenditure program spanning fiscal 2024 through fiscal 2029, with 68% of the program expected to be funded with pay-go funds and the rest expected to be financed with debt.

The continued declining liquidity coupled with the increasing leverage and debt service requirements, now joined by the uncertainty on the bridge replacement

project, 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.

RATING OUTLOOK

The negative outlook reflects the uncertainty around the Key Bridge's replacement project's costs, including their funding, and timing coupled with financial metrics that were expected to narrow before bridge collapse, as MDTA moves forward with its capital improvement program.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- 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
- Clearer path on Key Bridge's replacement project's costs, including their funding, and timing with minor impact to MDTA's credit profile could stabilize the outlook

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Prolonged uncertainty on bridge replacement project and/or replacement project resulting in further weakening of financial metrics without any mechanism to offset it
- 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 2.0x
- A sustained increase in leverage resulting in adjusted debt to operating revenue above 4.5x
- Liquidity below 400 days cash on hand
- Transfers of funds out of the system to MDOT that put pressure on toll rates and/or on financial metrics

LEGAL SECURITY

The authority's outstanding revenue bonds 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 funded with surety policies.

PROFILE

The authority is an independent agency with autonomous rate-setting authority, however the Secretary of 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 (that collapsed in March 2024 and will be replaced); 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 Publicly Managed Toll Roads and Parking Facilities published in May 2023 and available at <https://ratings.moodys.com/rmc-documents/403120>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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