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SECTOR COMMENT
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Infrastructure and State and Local Government – Maryland

Bridge collapse is a credit risk for MDTA with uncertain replacement cost and timing

On March 26, the Francis Scott Key Bridge collapsed in Baltimore after a container ship collided with a support column, removing a key transportation artery in the region and causing presumed fatalities. The accident will deprive the Maryland Transportation Authority (MDTA, Aa2 stable) of toll revenue, though the greater credit risk for the authority lies in the uncertainty of the bridge replacement costs and timing.

Reconstruction costs, which are unknown at this point, will be substantial in part because of elevated construction costs driven by high inflation in recent years and a tight labor market. While we believe there will be some level of federal financial support, the amount and timing are uncertain.

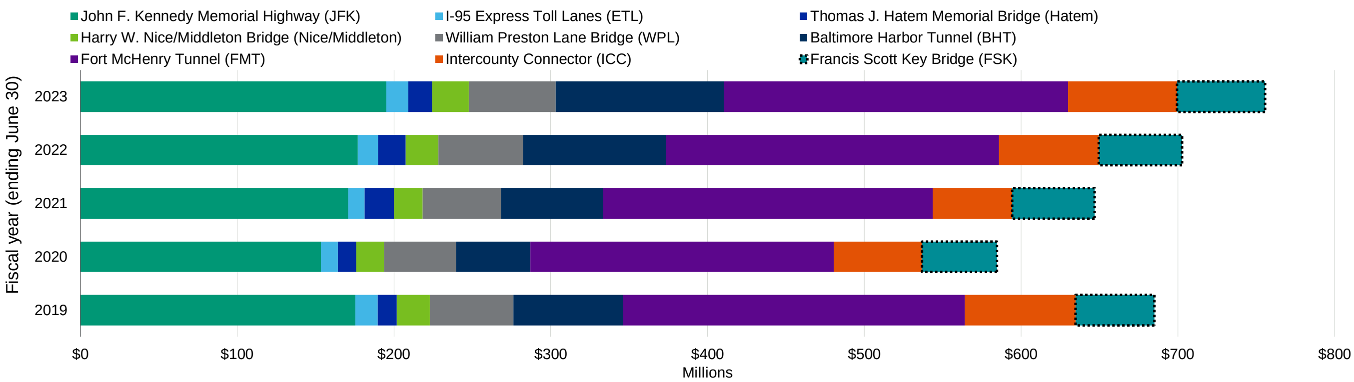
MDTA replaced its Nice/Middleton Bridge in October 2022 following a 30-month construction period at a $636 million cost. With current market conditions and the fact the Key Bridge was much taller, total replacement costs for it will likely be considerably higher.

MDTA has options to fund near-term reconstruction costs if needed. These include tapping its $830 million in liquidity (unrestricted and discretionary reserves) as of March 26, 2024 as well as using funds from insurance. MDTA has $350 million in property and business interruption insurance, though timing of disbursement is uncertain. MDTA may also receive third-party insurance proceeds, including from the ship owner that caused the crash.

However, if MDTA needs to issue debt or deplete its liquidity to finance bridge replacement, it faces a credit risk. It had 3.39x coverage on annual debt service for its $2.26 billion in debt outstanding at the completion of the fiscal year ended June 30, 2023. But MDTA is in the midst of a $3.1 billion capital improvement program and plans call for it to issue $1 billion in debt to cover a portion of the costs. Debt for the bridge collapse and capital program together have the potential to substantially weaken MDTA's financial positon. Still, in line with its track record, we expect MDTA to take action to maintain its strong financial profile by increasing toll rates or making other adjustments.

Toll revenue from the 1.6-mile Key Bridge, one of eight toll facilities owned and operated by MDTA, accounts for only about 7% of its total toll revenue (see Exhibit), minimizing the adverse effects from lost collections. MDTA also has the business interruption insurance that could cover part of the lost dollars. The bridge has a monopoly role in harbor crossings along a section of the Interstate-95 corridor. As a significant share of traffic is diverted to the other MDTA facilities in the area, Fort McHenry Tunnel and Baltimore Harbor Tunnel, toll collections from the tunnels stand to offset lost toll revenue. The tunnels, however, have more limitations regarding commercial vehicles that can travel through them.

Key Bridge revenue represents a relatively small share MDTA's total toll revenue, limiting potential negative effects from the bridge collapse
Revenue by facility



Source: Maryland Transportation Authority

The bridge collapse threatens to disrupt aspects of the State of Maryland (Aaa stable) and City of Baltimore (Aa2 stable) economies. The suspension of shipping traffic to the Port of Baltimore will likely divert cargo to other East Coast ports, which may affect jobs and tax revenue. The accident also has the potential to hurt the transportation and warehousing sector, though that accounts for a small share of state GDP.

In recent years, the state and Baltimore County (Aaa stable) have provided incentives and worked with developers to facilitate the redevelopment of Sparrows Point, a more than 3,000-acre contaminated industrial site once home to a Bethlehem Steel plant. Over the last nine years, Sparrows Point has seen almost $2 billion of private investment resulting in the development of 14 million square feet of warehousing and distribution facilities. With the Key Bridge providing the only direct access route between Sparrows Point and Baltimore/Washington International Thurgood Marshall Airport, further development at Sparrows Point could be delayed.

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