MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Maryland Transportation Authority's $ 326.6 million Transportation Facilities Projects Revenue Bonds Series 2020; outlook stable

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New York, June 08, 2020 -- Moody's Investors Service ("Moody's") has assigned a Aa2 rating to approximately $327 million of Maryland Transportation Authority's ("MDTA" or "the authority") Transportation Facilities Projects Revenue Bonds, Series 2020 (Tax-Exempt Bonds). Concurrently, Moody's has affirmed the Aa2 rating on MDTA's outstanding revenue bonds. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating reflects the essentiality of the authority's road network, the fundamental strength of the service area and its historical strong financial and operational performance. The rating also incorporates the authority's policy which requires it to maintain at least $350 million in unrestricted cash and maintain a debt service coverage ratio above 2.0x starting in the 2021 fiscal year. Taken together, these factors well position the authority for its board-approved $2.8 billion capital expenditure program spanning FY 2021 through FY 2026. The program is expected to be funded with internal liquidity combined with approximately $1.0 billion of debt financing, and this increased leverage would bring the authority's annual debt service requirements in FY 2026 to nearly $170 million. This could place material pressure on the Aa2 rating level should toll revenues not keep pace with growing debt service requirements through either traffic growth or toll rate increases.

On March 5, 2020 the governor of Maryland declared a state of emergency due to the coronavirus pandemic and on March 30 issued a "stay at home" order. The authority suspended cash operations on March 23 opting to switch to all electronic and video tolling. The impact on traffic for the authority's legacy facilities was significant with passenger car transactions and revenue for the month of March declining 26.4% and 28.5%, respectively, compared to the period the year prior. Commercial traffic on its legacy facilities demonstrated its resiliency as transactions increased 1.2% and revenue increased 6.5% for the month of March compared to the same period the year before. Overall, total transactions for the month of March on the legacy facilities decreased 24.2% and third quarter results decreased 3.3% compared to the previous year. Total revenue for the legacy facilities for the month of March decreased 15.1% and third quarter results were 4.1% lower than the previous year. Management has noted that traffic on its legacy facilities is steadily increasing with passenger vehicles increasing at an average of 3.8% per week from April 12 to May 24.

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 of 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 RATINGS

- 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 RATINGS

- 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 adjusted debt to operating revenue above 4.5x, or liquidity below 400 days cash on hand could exert downward pressure on the rating.

LEGAL SECURITY

The Transportation Facilities Projects Revenue Bonds, Series 2020 are on parity with the authority's outstanding revenue bonds, which 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 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 provided by surety policies, since November 2018.

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 2019 decreased to $1.54 billion from $1.59 billion the previous year.

USE OF PROCEEDS

The Series 2020 revenue bonds will be used to reimburse unrestricted cash for prior expenditures, to fund a portion of the authority's capital expenditure program, and to fund certain costs of issuance.

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. From 2002 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. 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 Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Myra Shankin
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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