Moody's Investors Service

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New Issue: Maryland Transportation Authority

MOODY'S ASSIGNS Aa3 RATING TO MARYLAND TRANSPORTATION AUTHORITY'S $685 MILLION TRANSPORTATION FACILITIES PROJECTS REVENUE BONDS, SERIES 2008; OUTLOOK IS STABLE

AUTHORITY HAS $1.22 BILLION RATED DEBT OUTSTANDING

Toll Roads
MD

Moody's Rating

ISSUE	RATING
Transportation Facilities Projects Revenue Bonds, Series 2008	Aa3

Sale Amount $685,000,000

Expected Sale Date 03/12/08

Rating Description Transportation Facilities Projects Revenue Bonds, Series 2008

Moody's Outlook Stable(m)

Opinion

NEW YORK, Feb 29, 2008 -- Moody's Investors Service has assigned a Aa3 rating to the Maryland Transportation Authority's $685 million Transportation Facilities Projects Revenue Bonds, Series 2008. The outlook is stable.

LEGAL SECURITY: The bonds are secured by a pledge of net revenues from six of the authority's seven toll facilities. Revenues from the Intercounty Connector (ICC) project will become part of the revenue pledge after completion. The bonds are also secured by a debt service reserve sized the lesser of maximum debt service, 125% of average debt service or 10% of the principal amount of the bonds being issued. The authority's rate covenant requires net revenues to be at least 1.2 times 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 authority has a statutory debt limit of $1.9 billion, which is expected to be raised by the Maryland General Assembly, in order to support its sizable capital plan.

USE OF PROCEEDS: Provide financing for various authority projects, including the Intercounty Connector (ICC) project which is under construction.

INTEREST RATE DERIVATIVES: None.

STRENGTHS:

*Long history of strong demand for the authority's essential and established transportation facilities based on well developed and growing service area

* Consistently high debt service coverage and related ample financial margins

*Very strong reserve levels representing more than one year of operating income, though balances will be reduced as the large capital improvement program (CIP) is funded

*Demonstrated willingness to raise tolls when needed, with minimal traffic impact; toll rates remain relatively low

CHALLENGES:

* The authority is implementing a $4.4 billion CIP over the next five years, including $2.2 billion for the ICC project and expects to issue $2.6 billion in debt to fund the program; CIP may be susceptible to cost increases beyond planned contingencies.

*Controlling operating expense growth, which has surpassed revenue growth for several years

*Traffic growth forecasts have been revised downward (to 1.2% annually from 1.5%) to reflect slower actual growth consistent with regional and national trends

* The authority's indenture allows for funds to flow out of the system, when authorized by the authority; there are no plans to transfer funds out of the system, however up until 2007, the authority had been making annual (fixed) payments to the Maryland Department of Transportation.

MARKET POSITION/COMPETITIVE STRATEGY: SYSTEM FACILITIES PROVIDE ESSENTIAL TRANSPORT LINKS IN STRONG, STABLE ECONOMY

The authority's Transportation Facilities Project Bonds are secured by the net revenues of six toll facilities with proven long term demand that are essential to the economy of Maryland and surrounding states. Tolled assets include the John F. Kennedy Memorial Highway, a 50-mile stretch of Interstate 95 between Baltimore and the Maryland-Delaware border; three bridges crossing the Potomac River, the Chesapeake Bay, and the Baltimore Harbor; and two tunnels connecting to I-95 and I-895. The authority also operates and collects tolls on the Hatem Bridge, which crosses the Susquehanna River but these revenues are not pledged to bondholders.

As part of I-95, the John F. Kennedy Memorial Highway and Baltimore's Fort McHenry Tunnel are the most-traveled portions of the system, together accounting for 50% of transactions and 64% of toll revenues in FY 2007. Compounded annual traffic growth over the last 5 years, on a system-wide basis, has averaged less than 1% while toll revenue growth was 9% (see further discussion under FINANCIAL POSITION section of this report). Transactions from 2006 to 2007 grew at 2.2%. Traffic growth forecasts have been revised downward (to 1.2% from 1.5% annually) to reflect slower actual growth consistent with regional and national trends, slower economic growth and rising fuel prices. Annual growth forecasts could be worse than projected given the uncertainty with the economy and rising gas prices and this could impact the timing and size of projected toll increases.

The authority will be issuing debt on a regular basis for its $4.4 billion CIP through 2013. The largest single component of its CIP is the upcoming construction of the Intercounty Connector, a new 18-mile, 6-lane tolled limited access facility outside of Washington, DC that is budgeted at $2.24 billion.

FINANCIAL POSITION AND PERFORMANCE: SYSTEM ESSENTIALITY AND ONGOING STRONG FINANCIAL RESULTS SUPPORT HIGH RATING

The system continues to enjoy the ample financial margins consistent with its high rating. Toll revenues at the authority's facilities have grown at a high compounded average annual rate of 9% over the past five fiscal years, supported by a toll increase in 2003. Toll revenue, approximately 48% collected electronically, was $280 million in FY 2007, an increase of 2% over 2006. Expenses have been growing at a faster pace than revenues over the last four fiscal years, in part due to a reclassification of certain capital costs and flat growth in vehicle miles traveled. Controlling expenses has been a continued focus of management. Debt service coverage has averaged a very high 5.5x over the past five years and 2.1x if annual transfers to the Maintenance and Operating (M&O) reserve account are included (these transfers are after debt service in the flow of funds). Coverage levels are projected to drop substantially as the authority implements its large CIP, however they are expected to stay above 2 times. The authority's strong financial margins are also evidenced by its high margin after debt service, which measures free cash flow after payment of O&M and debt service as a percentage of gross revenues. Over the past five years, the margin after debt service has averaged 48%. At the close of FY 2007 the authority had 638 days cash on hand, which does not include construction funds or debt service reserves.

The authority is an independent agency, with independent rate-setting authority; however, the Secretary of the State Department of Transportation (MDOT) also serves as Chairman of the authority's 8 member board. The two agencies work together to address transportation needs in the state and this high level of coordination benefits the authority as it undertakes capital projects. Since 2001, the authority has made annual payments of $43 million to MDOT for mass transit projects which it is permitted to do per its bond indenture. Moody's notes that the last such payment occurred in FY 2007 and there are no plans to transfer funds out of the system for other purposes, at this time. It is our expectation that the authority will not resume transfers to MDOT as it moves forward with its substantial capital plan.

CAPITAL PROGRAM: LARGE CAPITAL PROGRAM RELIES ON SUBSTANTIAL DEBT FINANCING AND CONSISTENT TRAFFIC AND REVENUE GROWTH

The authority will be issuing debt on a regular basis for its $4.4 billion CIP from 2008-2013 (an increase of $379 million from the 2006-2011 CIP) over the next five years. Total new money issuance through that period is expected to be $2.55 billion. This issue will more than double the authority's debt outstanding. Annual debt service obligations, which in 2007 were $24.5 million are expected to rise substantially to approximately $170.5 million in 2013 before leveling off around $200 million in 2014 and 2015. Based on reasonably conservative traffic projections, which are consistent with long term historical traffic trends, we expect the authority will be able to take on these financial obligations while maintaining the strong financial profile consistent with its high rating. Consultants to the authority have developed a base case financing scenario as well as several sensitivity analyses. Under the base case, the authority is projected to have debt service coverage exceeding 2x, as well as a strong level of reserves. In certain very severe stress scenarios, which includes no traffic growth on the existing system, slower than forecast ramp-up of the ICC project as well as increased capital costs, coverage declines to around 1.5x in 2017, and larger than projected toll increases may be needed when compared to the base case.

The authority's ability to implement a CIP of this size is further supported by its ample reserves. At the end of FY 2007 the authority had $245 million in cash and investments (not including construction funds and bond service and reserve accounts) representing approximately 1.7x annual expenses or 638 days cash on hand. While not required to do so by the indenture, the authority's goal is to maintain cash reserves (including construction funds and bond service and reserve accounts) equal to annual toll revenues.

The authority plans to spend over $2 billion upgrading its existing facilities. The largest single component of its CIP is the construction of the ICC. The ICC is a new 18-mile, tolled, limited access facility outside of Washington, DC, connecting I-270 in Gaithersburg to I-95 south of Laurel and linking Montgomery (rated Aaa) and Prince George's (rated Aa1) counties. MDOT will manage the construction of this $2.24 billion road ($1.2 billion funded by authority bonds and cash), which is slated for completion in 2012. Officials currently anticipate debt-financing approximately 58% of the CIP, (significantly higher that the 46% previously estimated) with the balance of funding coming from a variety of sources, including authority cash reserves ($893 million), GARVEE bonds ($408 million), state general fund and transportation trust fund monies ($302 million). The Final Environmental Impact Statement (FEIS) for the ICC was issued on January 3, 2006 and a favorable Record of Decision (ROD) was approved by the Federal Highway Administration (FHWA) on May 29, 2006. The 2006 initial finance plan for the project was approved by FHWA on June 29, 2006. The project is on schedule and budget and the authority issued a notice to proceed to the winning bidder for the design-build construction contract of a 7.2 mile section of the 18.8 mile project.

A summary judgement in the authority's favor was issued related to the litigation concerning the ROD process, which is being appealed. Delays or unfavorable decisions could delay construction and, potentially, increase project costs.

Outlook

The outlook is stable based on our expectation that the authority will be able to maintain its strong financial profile as it implements its large CIP, will continue to raise tolls, as needed, to support its increasing debt service obligations and that the CIP will be completed within the expected budget.

What Could Change the Rating - UP

Significant and sustained higher-than-projected traffic levels and toll revenues could put upward pressure on the rating.

What Could Change the Rating - DOWN

Downward pressure on the rating could arise from declining traffic and revenue levels, or significant increases in the CIP cost and narrower financial margins. Also, failure to increase the authority's statutory bonding cap or the resumption of annual transfers to MDOT as the authority finances its CIP could lead to downward revisions of the rating.

KEY INDICATORS:

Facility Type: Established, multi-asset, state-wide combined bridge and highway system

Margin after debt service, FY 2007:42.8%

Debt Service Coverage, FY 2007: 6.04x

Lowest projected coverage through 2012: 2 x

Debt per Roadway Mile, FY 2007:$2816

Debt per Transaction, FY 2007: $1.75

O&M Expense per Roadway Mile, FY 2007:$1,895

5-YR CAGR Total Toll Revenue (%): 9%

5-YR CAGR Passenger Transactions (%): 0.5%

5-YR CAGR Commercial Transactions (%):1.8%

RATED DEBT

Transportation Facilities Project Revenue Bonds, Series 1992, 2004 & 2007 $532.25 million

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