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INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 TO MARYLAND TRANSPORTION AUTHORITY FACILITIES PROJECTS REVENUE BONDS

Global Credit Research - 08 Jul 2010

AFFECTS $1.66 BILLION REVENUE BONDS

Toll Roads
MD

Moody's Rating

ISSUE		RATING
Transportation Facilities Projects Bonds		Aa3
Sale Amount	$300,000,000	
Expected Sale Date	07/15/10	
Rating Description	Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Jul 8, 2010 -- Moody's Investors Service has assigned an Aa3 rating to the Series 2010 Transportation Facilities Projects Revenue Bonds of the Maryland Transportation Authority and affirmed the Aa3 bond rating on outstanding parity bonds. The outlook is stable. The Aa3 is based on the essentiality of the authority's road network; strong historical and projected debt service coverage ratios (DSCR); conservative financial practices and capital program management.

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, the authority's eighth facility, will become part of the revenue pledge once the project is completed. The bonds are also secured by a debt service reserve sized at 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 the sum of 1.2 times 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 authority has a statutory debt limit of $3 billion.

USE OF PROCEEDS: The $300 million fixed rate Series 2010 bonds are structured with 12 months of capitalized interest followed by 30-year level debt service. The bonds are being issued as Build America Bonds (BABs) with a 35% federal interest rate subsidy. As with the previously issued 2009 BABs the subsidy is a defined revenue in the bond indenture and is being applied as an offset to annual debt service. Bond proceeds provide financing for various authority projects, including the ICC project which is under construction.

INTEREST RATE DERIVATIVES: None.

STRENGTHS

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

* Consistently high debt service coverage ratios (DSCR) and related ample financial margins, though coverage will be reduced as new debt is added

* Strong liquidity levels representing more than one year of operating income, though balances will be reduced to a minimum $350 million as the large capital improvement program (CIP) is funded

* Demonstrated willingness and independent ability to raise tolls when needed, with projected minimal traffic impact; toll rates remain relatively low despite doubling of commercial tolls in Spring and two additional expected rate increases in 2012 and 2014

CHALLENGES

* The authority continues to implement a large CIP over the next five years, including the ICC project and expects to issue an additional $1.2 billion in debt through 2016 to fund the program. Though currently on schedule and within budget the ICC and other CIP projects may be susceptible to cost increases beyond planned contingencies

* Future needed toll rate increases have not been formally approved

* The authority's indenture allows for funds to flow out of the system, when authorized by the authority. Until 2007 the authority had been making annual (fixed) payments to the Maryland Department of Transportation (MDOT), but has not made payments since then

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 cover a densely populated, high income service area and include the John F. Kennedy Memorial Highway (JFK), 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. An eighth facility, the Intercounty Connector is currently under construction with expected completion of the first segment in late 2011 or early 2011..

As part of I-95, the Fort McHenry Tunnel in Baltimore is the most-traveled segment of the system, accounting for 37% of transactions and 30% of toll revenues in FY 2009. The JFK Highway accounts for the largest share of toll revenues, accounting for 33% in FY 2009. Annual system-wide traffic growth over the last 5 years has averaged -0.3% while toll revenue growth has averaged -0.17%. Over a 10-year period (2000-2009) the average growth rates were 0.9% and 7.2%, respectively. From 2008 to 2009 traffic declined by 2% and revenues declined by 1%. The base case traffic forecast included a 2.9% decline in transactions and a 6.4% increase in revenues in 2010, followed by a 0.5% transaction gain in 2011. Actual traffic through March 2010 is down only 0.3% and revenues are up 13.3% compared to 2009. The five-year AAG forecasted traffic growth rate is 0.74% and for revenues 4.6%, which includes the projected elasticity effects of a 48% toll increase in 2012 and a 23% increase in 2014.

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

The system enjoys ample financial margins consistent with its high rating, though these margins will diminish as the CIP is implemented and debt service ramps up. Toll revenue growth has been aided by toll rate increases and fee adjustments since 2003. Electronic toll collection (ETC) represents approximately 51% of total revenues in FY 2009. Expenses had 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. Management has been monitoring expenditures and has effectively controlled expenditures in 2009 and 2010. In 2009 the authority increased commercial toll rates by 50% and effective July 2009 the authority made several changes in commuter toll plans and added various service fees, including a $1.50 monthly electronic (EZPass) maintenance fee, a replacement cost for transponders as well as an increase in toll violations charges to $25 from $15 and a reduction in commuter plans to 45 from 60 days. The 2010 budget is based on assumed 2.9% traffic decline and a projected 6.4% increase in revenues, which has been exceeded through March.

Annual debt service coverage has averaged a very high 5.18x over the past five years and 2.26x 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). Debt service coverage is forecast at 3.86x for FY 2010 and coverage levels are projected to drop substantially as the authority amortizes debt issues for its large CIP; however, they are expected to stay above 2 times including planned debt issues totaling $1.2 billion through 2016 (including $516 million TIFIA loan). The authority's strong financial margins are also evidenced by its high margin after debt service, which measures free cash flow after payment of operating expenses and debt service as a percentage of gross revenues. Over the past five years, the margin after debt service has averaged 47.3%. At the close of FY 2009 the authority had 650 days cash on hand, excluding 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 state-wide transportation needs and this high level of coordination benefits the authority as it undertakes capital projects. Until 2007 the authority had 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 authority does not currently plan to reinstate the transfers given the large amount of cash flow needed to complete the ICC and system-wide capital projects.

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 $2.6 billion 2011-2016 capital improvement program (CIP), with approximately $1 billion allocated for the largest project the ICC. The ICC is a new 17.5-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 Aaa) counties. MDOT is managing the construction of this $2.57 billion toll road ($1.2 billion funded by authority bonds and cash), which is slated for completion and full revenue operation in 2013. One construction contract is about three months delayed due to heavy rains this year, but the overall ICC project is on schedule and within the budget established in 2008, with first leg to open in late 2010 or early 2011. All major construction contracts have been awarded; phased completion is planned for 2010, 2011, 2012 and 2013. The CIP also includes approximately $1.3 million for system-wide upgrade and preservation projects for existing facilities. Total new money bond issuance through 2016 is expected to be $707 million with the balance of the funding supplied by a committed $516 million TIFIA loan; authority cash and federal and state grants.

As a result of the large capital program, annual debt service increases from $35.3 million in 2011 to approximately $152.9 million in 2016 then leveling off.. Based on reasonably conservative traffic projections, which are consistent with long term historical traffic trends, we expect the authority will be able to meet its debt servicing obligations while maintaining above 2 times debt service coverage and maintaining a strong financial profile consistent with its high rating. Key to the forecast are assumed toll rate increases of 48% in 2012 and 23% in 2014. 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 at or slightly above 2 times, as well as a minimum of $350 million in available cash reserves. In certain severe stress scenarios, which includes a combination of multiple stress scenarios: no traffic growth on the existing system, slower than forecast ramp-up of the ICC project as well as $600 million of increased capital costs, coverage would decline to 1.24x in 2017, without any additional adjustments to toll rates. The worst case scenario would likely require alarger than projected toll rate increase in Moody's opinion.

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. Through June 2010 the project is on schedule and budget.

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 and timeframe.

What Could Change the Rating - UP

Significant and sustained higher-than-projected traffic levels and toll revenues that increase debt service coverage margins above historic levels could put upward pressure on the rating.

What Could Change the Rating - DOWN

Downward pressure on the rating could arise from declines in traffic and revenue levels that are more severe that levels assumed in the authority's base case financial projections. Similarly significant increases in the CIP cost or failure to execute toll increases as planned in 2012 and 2014 to achieve currently forecasted DSCRs would place downward pressure on the rating. While certainly not the only factor, a sustained decline in debt service coverage below 1.7 times in conjunction with other unfavorable developments would exert downward pressure on the rating.

KEY INDICATORS:

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

Toll Transactions, FYs 2008-2009: -2%

Toll Revenues, FYs 2008-2009:-1%

FY 2009

Margin after debt service: 40.6%

Debt Service Coverage: 4.29x

Debt per Roadway Mile: $22,321

Debt per Transaction: $14.12

O&M Expense per Roadway Mile: $2,857

Days Cash on Hand: 651

10-YR AAG Total Toll Revenue (%): 7.2%

10-YR AAG Passenger Transactions (%): 0.9%

Debt Outstanding: $1.957 billion

Transportation Facilities Project Revenue Bonds,

Series 1992, $63 million

Series 2004, $158 million

Series 2007, $300 million

Series 2008, $573 million

Series 2009, $560 million

Series 2010, $300 million

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The last rating action was on November, 2009 when a municipal finance scale rating of Aa3 was assigned to the Series 2009 transportation facilities projects revenue bonds. That rating was subsequently recalibrated to Aa3 on a global scale on May 10.

The principal methodology used in rating the authority's bonds was "State and Local Government Owned Toll Facilities in the United States," published in March 2006 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on Moody's website.

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