Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 TO SERIES 2012 TRANSPORTATION FACILITIES PROJECT BONDS OF MARYLAND TRANSPORTATION AUTHORITY; OUTLOOK STABLE

Global Credit Research - 07 Feb 2012

AFFECT $2.3 BILLION OUTSTANDING BONDS

MARYLAND TRANSPORTATION AUTHORITY
Toll Facilities
MD

Moody's Rating

ISSUE	RATING
Toll Revenue Refunding Bonds, Series 2012	Aa3
Sale Amount $78,785,000	
Expected Sale Date 02/14/12	
Rating Description Revenue: Government Enterprise	

Moody's Outlook N/A

Opinion

NEW YORK, February 07, 2012 --Moody's Investors Service has assigned an Aa3 rating to the Series 2012 Transportation Facilities Projects Revenue Refunding Bonds of the Maryland Transportation Authority and affirmed the Aa3 bond rating on outstanding parity bonds. The outlook is stable.

RATING RATIONALE: The Aa3 is based on the essentiality of the authority's road network; strong historical and projected debt service coverage ratios (DSCRs); demonstrated ability and willingness to raise tolls to support capital projects and 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, become part of the revenue pledge as the project is completed. The bonds are also secured by a cash-funded 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: Series 2012 bonds refund portions of Series 2004 bonds for estimated net present value savings of $5.6 million or 8.8% of refunded bonds with no change in debt structure or final maturity.

INTEREST RATE DERIVATIVES: None.

STRENGTHS:

* Long history of strong demand for the authority's multiple, essential and established transportation facilities in well-developed, affluent and slowly growing service area. Current unemployment in MSA is lowest among top 10 MSAs at 6%

* Consistently high debt service coverage ratios (DSCRs) and ample financial margins, though coverage will be reduced as outstanding debt is amortized

* Strong liquidity levels representing more than one year of operating expenses, 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 2010 and one additional expected rate increase in July 1, 2013 (part of approved three part rate increase adopted September 2011)

CHALLENGES

* Modest amount of planned future debt, and total debt outstanding limited by statute to $3 billion

*Possible, though limited, cost increases for capital projects completion

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

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 and toll increases to support escalating debt service.

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

Greater declines in traffic and revenue levels than assumed in the authority's base case forecast combined with significantly higher debt financing of the CIP could place downward pressure on the rating. A sustained decline in the DSCR below the targeted 2 times in conjunction with other unfavorable developments would exert downward pressure on the rating.

DETAILED CREDIT DISCUSSION

SYSTEM FACILITIES PROVIDE ESSENTIAL TRANSPORT LINKS IN STRONG, STABLE ECONOMY

The authority's 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 (I-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 (ICC) construction is nearly complete and about $103 million under budget. The current MSA unemployment rate of 6% is the lowest among the top 10 MSAs.

As part of I-95, the Fort McHenry Tunnel in Baltimore is the most-traveled segment of the system, accounting for 38% of transactions and 30% of toll revenues in FY 2011. The JFK Highway accounts for the largest share of toll revenues at 34% of total. Annual system-wide traffic growth over the last 5 years has been essentially flat averaging -0.5% while toll revenue growth has averaged 2.5%. Over a 10-year period (2002-2011) the average growth rates were 0.2% and 6.1%, respectively. More recently, from 2010 to 2011 traffic grew 1.2% and revenues 1.1%.

The base case traffic and revenue forecast includes an 8.8% decline in transactions from 2012 to 2014, which factors in the projected elasticity effects of implemented and approved toll increases, followed by a 1% transaction growth in subsequent years. The base case assumes a three year ramp of ICC traffic based on full completion in 2014.

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

The authority has 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 regular toll rate increases and fee adjustments since 2003.

In September 2011 the authority approved a series of toll increases to be implemented in phases. The first increase became effective on November 1, 2011; the second on January 1, 2012 and the third will be implemented on July 1, 2013. 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.

Annual debt service coverage has averaged a very high 5.02 times in FY 2011, and 3.36 times including annual transfers to the Maintenance and Operating (M&O) reserve account (these transfers are after debt service in the flow of funds). Debt service coverage is forecast at 2.44 times for FY 2012 and under the base case forecast remains comfortably above 2 times including planned new debt totaling $320 million through 2018. 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 42.9%.

LARGE BUT MANAGEBLE CAPITAL PROGRAM WITH MODEST DEBT FINANCING

The authority's 2012 through 2017 draft consolidated transportation plan (CTP) identifies $2.173 billion in projects, including $450.3 million for the ICC completion; $473 million for the JFK Highway and $786.6 million for system-wide improvement and maintenance projects. Plan funding is expected to come primarily from authority capital funds and cash flow ($1.787 billion), and only $318.8 million in additional bonds.

The ICC is a 17.5-mile, tolled, limited access facility outside of Washington, DC, connecting I-270 (via I-370) in Gaithersburg to I-95 and US 1 south of Laurel and linking Montgomery (rated Aaa) and Prince George's (rated Aaa) counties. MDOT is managing the construction of this now $2.43 billion project (down from a budgeted cost of $2.56 billion). The roadway is open to traffic over the 16 miles from I-370 to I-95 ; the remining 1.5 mile segment from I-95 to US1 will be open in 2014. All major construction contracts have been awarded.

On account of the large capital program, annual debt service increases from $35.7 million in FY 2011 to approximately $141.3 million in 2016 before 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 with a minimum of $350 million in available cash reserves. Assuming an unlikely 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 1.45 times in 2018, without any additional adjustments to toll rates.

The authority is an independent agency, with autonomous 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.

KEY INDICATORS:

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

Toll Transactions, FYs 2010-2011: 1.2%

Toll Revenues, FYs 2010-2011: 1.1%

FY 2011:

Debt Service Coverage: 5.02x /3.35x[1]

Debt per Roadway Mile: $42,403

Debt per Transaction: $26.70

10-year/5-year AAG Total Toll Revenue: 6.1%/2.5%

10-year/5-year AAG Passenger Transactions: 0.2%/-0.5%

Debt Outstanding: $2.3 billion

[1] Excludes/includes transfers to M&O Fund

CONTACTS

Alison Williams, Director of Debt Management

410.537.5720

The principal methodology used in this rating was State and Local Government-Owned Toll Facilities in the United States published in March 2006. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this

announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Analysts

Maria Matesanz
Lead Analyst
Public Finance Group
Moody's Investors Service

Laura Barrientos
Backup Analyst
Public Finance Group
Moody's Investors Service