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Rating Update: Moody's affirms Aa3 on Maryland Transportation Authority's Transportation Facility Revenue Bonds; outlook stable

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Approximately $2.186 billion revenue bonds outstanding

MARYLAND TRANSPORTATION AUTHORITY
Toll Facilities
MD

NEW YORK, April 03, 2015 --Moody's Investors Service has affirmed the Aa3 on the Maryland Transportation Authority's Transportation (MDTA) Facilities Projects Revenue Bonds. The authority has approximately $2.186 billion of revenue bonds outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa3 is based on the essentiality of the authority's road network; the fundamental strength of the service area; 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. The rating also considers better than expected elasticity to implemented toll increases, which have produced traffic and revenue levels above projections. The rate increases allow the authority to produce financial metrics consistent with current levels despite increased debt service levels and decreased liquidity as a result of capital projects. The rating incorporates the recent improvement in credit quality given the completion of two new facilities, increased revenues from recent toll increases and adequate liquidity, but also takes in consideration the uncertainty surrounding potential for future toll rate decreases. Moody's will evaluate the credit impact of any toll rate reductions based on their magnitude if and when they are implemented.

OUTLOOK

The stable outlook incorporates the expectation of stable traffic and revenue levels, enabling the maintenance of strong financial metrics and that toll rate reductions, if any, would not have a significant negative impact on credit metrics.

WHAT COULD MAKE THE RATING GO UP

- Significant and sustained higher-than-projected traffic levels

- Toll revenues that increase DSCRs above 3.0 times while maintaining current levels of liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Greater declines in traffic and revenue levels than assumed in the authority's base case forecast

- Significantly higher debt financing of the CIP

- A sustained decline in the DSCR below the targeted 2.0 times due to toll rate decreases combined with other unfavorable developments

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.

- Consistently high DSCRs and ample financial margins, and limited future borrowings should keep financial metrics at the current level

- 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 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 an additional rate increase in July 1, 2013

CHALLENGES

- Authority currently has remaining ramp-up risk from the opening of the ICC and I-95 express lanes

- At the request of the governor, who appoints all members to the board, the authority is currently reviewing possibility of reducing toll rates. Toll rate reductions could occur as early as July 1, 2015

- The indenture allows for funds to flow out of the system, when authorized by the authority. From 2002 to 2007 the authority made annual (fixed) payments to the Maryland Department of Transportation (MDOT), but has not made payments since then

RECENT DEVELOPMENTS

The authority is currently conducting a study in order to assess the possibility for toll reductions given a request from the newly elected governor. The review process is expected to be completed by July 1st, and there is the potential for toll rate decreases as early as then, however at this time, the magnitude of the possible decrease is still unknown. The MDTA has provided sensitivity scenarios based on CDM Smith's revised traffic forecasts to demonstrate the potential impact on coverage ratios. A more severe downside scenario including slower ramp-up of the ICC (8 years versus 3 years), a 7.3% reduction in toll rates, and additional CIP costs with associated borrowing of $600 million would still generate healthy debt service coverage ratios averaging 2.70 times over the 2015-2020 period. Per Moody's calculations using similar CDM Smith's transaction and revenue forecast, revenues would have to decline by 22.6% on average in order for DSCRs to reach 2.0 times over the period. This reduction would mean a return to rates prior to the most recent increase in FY 2013. Management has stated that it will not implement the toll rate decreases if it jeopardizes the authority's financial metrics or credit rating. Moody's views the potential for rate decreases as a credit negative and a departure from non-intervention by the state government and will reassess the impact on the overall financial health of the authority if and when any rate reduction is implemented.

The Intercounty Connector (ICC) was completed five months behind schedule in November 2014. The cost to complete the project was reduced to $2.39 billion from $2.57 billion due to savings achieved on right of way contingencies, construction change order contingencies, and price adjustments over the past several years. According to management, the ramp-up of the ICC revenues and traffic to date are approximately one year behind original forecast. Fiscal year 2015 year to date (June 2014 to January 2015) shows traffic on the ICC increasing 16.0% to 13.42 million transactions and revenue up 16.6% to $31.74 million, from the same period in FY2014. The ICC is expected to have 37.22 million transactions and $65.15 million in revenue for FY 2015, and represent 26% of total transactions and 10% of revenues by FY 2016.

The I-95 Express Toll Lanes (2 lanes each way) or I-95 ETL opened in December 2014. The I-95 ETL is the second all electronic toll facility in Maryland and is expected to bring much needed traffic relief to one of the most congested portions of I-95 in Baltimore. The I-95 ETL provides eight miles, seven tolled, of generally free-flowing traffic between I-895 and just north of MD 43 (White Marsh Boulevard) in Northeast Baltimore. The overall project is estimated at $1.1 billion. There are still four contracts outstanding, relatively minor in cost and scope for a total of $40 million, which are within budget. Revenues associated with the express lanes are not expected to be a significant component of total revenues (~ 10% of total by year 2023).

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

The authority's assets are mainly focused in the Baltimore area, which has seen a recent uptick in economic performance. High-and-low income jobs have increased in 2015 to above prerecession levels. The area's unemployment rate of 5.7% is close to the US average 5.6%. The area has recently become a hub for growing cyber-security, which should help to increase middle-wage job growth, but is likely a long-term trend. Population growth, which has been between 0.6% and 0.7% over the past few years in the area has lagged the national average of about 1%. Domestic net migration remains fairly close to zero, but the advent of major transportation and infrastructure projects may help spur in-migration trends. Overall, the area's growth is expected to expand over the next few years as federal spending returns to the area and the middle-wage job market recovers. The addition of major investments in the area also may add significant upside potential for economic growth. We expect that growth in the area's economy will help support the traffic levels and revenue growth for the authority's assets.

The authority has a long dated stable base of toll revenues.

FINANCIAL OPERATIONS AND POSITION

The authority saw a significant 36.4% increase in toll revenue for FY 2014 due to the scheduled increase in toll rates in FY 2013. Total transactions in FY 2014 on the legacy assets (which excludes new construction of ICC and the I-95 express lanes) were down by 0.9% to 112.5 million while revenues increased by 39.5% as a result of the toll increase. Traffic was projected decline by 6.2% to 106.6 million transactions in FY 2014, meaning that actual traffic was 5.5% above the projected figure. For FY 2015, traffic is expected to remain flat at 112.4 million transactions for the legacy structures, and revenue remaining at $575 million. Operating expenses also increased by 8.8% as a result of new assets becoming operational. The DSCR increased from 2.48 times to 3.42 times in FY 2014 as a result of the toll increase. Coverage ratios are projected to remain above 3.0 times absent any changes to toll rates.

The authority has outperformed revenue forecasts for the past seven years, including total revenue 5.8% higher than forecasted for FY 2014. Traffic to the legacy facility has seen a decline in traffic at a compound rate of 0.43% since 2004, which was forecasted to continue in 2014. Revenue during the same period has increased at a compound rate of 8.61% due to rate increases. Total transactions for the authority were up 17.0%, mainly due to the opening of the ICC. Total transactions on the ICC for FY 2014 were 20.48 million, which was below the 27.64 million originally forecasted due to a four month delay in opening as previously mentioned.

Projections for the authority's legacy structures were updated in 2014 by CDM Smith. The new the forecast incorporates the recent outperformance of previous expectations. Growth rates remain comparable to the original forecast, the new forecast now incorporates 2014's actual performance as a new base, which is higher than the originally projected level for 2014. The projections include traffic growth on the legacy facilities of 0.67% CAGR over the next ten years, with revenue growth forecasted at 0.72% CAGR over the same period. According to this forecast, the authority can meet all of its funding requirements under the current toll schedule through 2027.

Toll rates were adjusted November 1, 2011 and January 1, 2012 and further adjusted July 1, 2013, approximately by 19%, 11% and 37% respectively.

Liquidity

The authority has retained a significant amount of liquidity, and has a policy of maintaining at least $350 million in available liquidity. The authority currently has liquidity levels, as measured by days cash on hand, at 813 as of FY 2014. This figure has come down from a maximum of 1,088 days cash on hand in 2011. This decrease is mainly due to the use of cash to fund the previous CIP, along with increases in operating expenses. The authority will continue to maintain high levels of liquidity in order to fund future capital projects and we expect days cash on hand to remain high. Over time we expect the level of cash to decline due to paying for capital projects, but we expect days cash on hand to remain above one year of coverage as the authority will retain at least $350 million in liquidity.

DEBT AND OTHER LIABILITIES

Debt Structure

The authority currently has $1.80 billion outstanding in Transportation Facility Revenue bonds, and $397 million in a Transportation Infrastructure Finance And Innovation Act (TIFIA) loan. See the "Rated Debt" section below for a listing of outstanding series.

Debt-Related Derivatives

None.

Pensions and OPEB

Pensions and OPEB are not a major factor in the methodology.

MANAGEMENT AND GOVERNANCE

The authority's capital improvement plan (CIP) for 2015-2020 of $2 billion focuses on system preservation and maintenance. The CIP also focuses on congestion relief and expansion of existing facilities, including $138 million for the I-95 Express Lanes. The authority's cash flows will be the primary funding, accounting for $1.87 billion, or more than 93%, being paid from cash. The authority only expects to borrow $132 million, which will occur in 2015, which will be the final draw on the TIFIA loan.

The authority has kept the upkeep of its assets high over the past three years. Each of the facilities are listed as being in good repair, working order and condition, and have remained at this status over each of the past three years.

METHODOLOGY SCORECARD FACTORS

Factor 1 - Asset Type: Aa

Factor 1 - Operating History: Aaa

Factor 1 - Competition: Aa

Factor 1 - Service Area Characteristics: Aaa

Factor 2 - Annual Traffic: Aa

Factor 2 - Traffic Profile: Aa

Factor 2 - Five-Year Traffic CAGR: A (2.58%)

Factor 2 - Ability and Willingness to Increase Toll Rates: Aa

Factor 3 - Net Revenue DSCR: Aaa (3.42x)

Factor 3- Debt/Operating Revenue: Aa (3.51x)

Factor 4 - Capital Needs: A

Factor 4 - Limitations to Growth: Aa

Scorecard Outcome Before Notching: Aa2

Notching Factors

-0.5 Notch for open loop

1.0 Notch for 912 Days Cash on Hand

Scorecard Outcome: Aa1

OTHER CONSIDERATIONS: MAPPING TO THE GRID

The grid is a reference tool that can be used to approximate credit profiles in the Toll Road Industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Government Owned Toll Roads for more information about the limitations inherent to grids.

The ratings assigned differs from the scorecard assigned rating as the assigned ratings incorporate on a prospective medium term basis the view that liquidity will continue to decline and the authority currently has remaining ramp-up risk on new toll facilities. In addition, the rating incorporates the uncertainty of potential toll rate decreases and their magnitude based on an ongoing study.

KEY STATISTICS

Facility type: established, multi-asset, state-wide combined bridge and highway system

Total toll transactions growth, FY 2013-2014: 17.0%

Toll transaction growth (excluding ICC), FY 2013-2014: -1.0%

Toll revenue growth, FY 2013-2014: 39.5%

FY 2014 debt service coverage ratio, net revenues basis: 3.42x

FY 2015 Projected debt service coverage ratio: 3.99x

Debt per roadway mile: $13,241

Debt per transaction: $17.06

5-year compound annual growth of total toll revenue: 15.72%

5-year compound annual growth of passenger transactions: 2.58%

OBLIGOR PROFILE

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 who are 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. 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 Intercounty Connector. The last facility is the Thomas J. Hatem Memorial Bridge (formerly the Susquehanna River Bridge), which the authority operates as a General Account Project.

LEGAL SECURITY

Bonds are secured by a pledge of net revenues from seven of the authority's eight toll facilities. 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

Not applicable

RATED DEBT

Series 1992 CAB's - $5.82 million

Series 2007 - $297.91 million

Series 2008 - $555.18 million

Series 2009 - $549.39 million

Series 2010 - $326.44 million

Series 2012 - $67.61 million

Total Rated Debt - $1.80 billion

TIFIA Loan - $397.50 million

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RATING METHODOLOGY

The principal methodology used in this rating was Government Owned Toll Roads published in October 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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