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Summary:

Maryland Transportation Authority; Toll Roads Bridges

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Summary:

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Credit Profile		
Maryland Transportation Authority		
Long Term Rating	AA-/Stable	Affirmed
Maryland Transp Auth transp		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long term rating and underlying rating (SPUR) on Maryland Transportation Authority's (MdTA) existing revenue bonds. The outlook is stable.

The rating reflects our opinion that the authority's toll revenue system is mature and diverse, with stabilizing costs as it transitions into an agency with maintenance and preservation of asset operation focus.

Specifically, the rating reflects our opinion of the MdTA's following credit strengths:

- Large and well-diversified system consisting of seven pledged facilities, with monopoly control over central Maryland's essential highway, bridge, and tunnel network, particularly Interstate 95 (I-95);
- Strong liquidity, with 813 unrestricted days' cash on hand as of fiscal year-end 2014 (June 30); and
- Very strong historical debt service coverage (DSC) based on pledged revenue of 2.48x to 5.28x from 2010-2014, which we do expect to fall below 2.6x, which is even with historical results.

We believe that countering these strengths are the following factors:

- A large-but-manageable $2 billion capital improvement program (CIP) through fiscal 2020,
- Uncertainty regarding projected financial performance under lower revenue scenario, and
- Uncertainty surrounding user acceptance of approved multi-phase toll increases and usage rates on the Inter-County Connector (ICC).

On Sept. 22, 2011, the authority approved a multi-phase adjustment to toll rates. Rates were adjusted in November 2011, January 2012, and July 2013. Because of the two mid-fiscal-year adjustments, pledged toll revenue increased $76.9 million, or 24.8%, from the eight tolled assets in fiscal 2012 from fiscal 2011. The authority intended the adjustments to provide revenue adequate to meet capital needs at least through 2015, but based on projections, this could provide funding through 2024; fiscal 2014 toll revenue was 6.25% above projections, at $35.8 million. In March 2015, the board directed staff to evaluate toll reduction options; and on May 7, 2015, it approved a package of toll and fee cuts for a targeted $53.4 million reduction beginning in fiscal 2016. Reductions include:

- Changes to toll rates at the Bay Bridge, the ICC, and I-95;
- Elimination of monthly maintenance fees for Maryland E-ZPass account holders;
- An increase in Maryland E-ZPass user discount; and
- Minor changes affecting multi-axle vehicles.

As well, the board approved a 1% to 2% reduction in the capital program, and a 4% reduction in the annual operating budget to resize the workforce. Management intends to fund the capital budget reductions through the allocated reserve program without material setbacks. Historically, traffic levels were not significantly affected by toll changes; however, the recent rate adjustments, in addition to recessionary effects, have slowed traffic growth. Moreover, these rates are higher than most other government-owned statewide systems, because they are only collected in one direction (northbound) on some of the facilities.

Currently, the noncommuter automobile cash toll rate on the authority's six pledged facilities (excluding the ICC) is as follows:

- JFK Memorial Highway, $8.00 (one-way tolling);
- Nice (Potomac River) Bridge, $6.00 (one-way tolling);
- Chesapeake Bay Bridge, $4.00 (one-way tolling); and
- Three Baltimore water crossings, $4.00 (tolls in both directions).

Given the authority's forecast maintenance of historical DSC and strong liquidity levels, we do not expect the toll rate reductions to have a material impact on credit quality. The MdTA had about $577 million in unrestricted cash and investments as of fiscal year-end 2014, or about 813 days' cash on hand. There had been no lower than 232 days' cash since 2008, but this level has been increasing since 2009 due mostly to the authority's modifying the reserve policy in 2009 to be the lesser of 100% of toll revenue, or $350 million in unrestricted cash--we consider this policy an additional credit benefit.

The bonds' security consists of a pledge on the net revenue of the MdTA's seven transportation facilities projects: JFK Memorial Highway, the Fort McHenry Tunnel, the Chesapeake Bay Bridge, the Baltimore Harbor Tunnel, the Francis Scott Key (Baltimore Harbor Outer) Bridge, the Nice (Potomac River) Bridge, and the recently opened ICC. Bondholders are also entitled to a pledge against some general account projects, but these are subject to authority termination, so we don't consider them in our analysis. System-wide traffic on the legacy facilities (excluding the ICC) of about 112 million vehicles in fiscal 2014 was down 1% from the prior year. However, revenue was up by 39.5% because of recent toll increases.

The MdTA's five-year CIP through 2020 totals $2 billion and focuses on maintaining existing facilities, including capacity enhancements, and the completion of the ICC and the I-95 Express Toll Lanes project. Cash from the capital fund, bond proceeds, and possible additional debt will fund the CIP. The authority currently projects that the remaining balance on an existing Transportation Infrastructure Finance and Innovation Act loan will cover $132 million. Throughout the CIP period, the MdTA expects to remain under its $3 billion bond cap; it had $2.3 billion outstanding as of June 30, 2014.

The CIP includes completion of the ICC, a 17.5-mile east-west highway north of Washington, D.C., that connects the Interstate 270 and I-95 corridors in Montgomery County and Prince George's County in Maryland. Construction began in November 2007, and the majority of the ICC, 16 miles, opened in November. The other major project near completion is the addition of electronic toll lanes on a portion of the JFK facility on I-95. We expect this $1 billion project to finish near-budget. For both projects, minimal expenses remain.

The system's financial performance has remained strong, although lower than historical levels. Using the MdTA's base-case scenario on traffic and expenditures, which we consider reasonable, projected net revenues demonstrate DSC to hold no lower than 3.25x through 2020. Current debt service plateaus in 2021 and holds there through 2040, with maximum annual debt service of $142.7 million in 2030. The stress scenario provided by the authority--assuming an eight-year ramp-up in ICC use, declining system-wide traffic, and an additional $600 million in capital costs--stresses DSC, but through 2023, the authority would still hold DSC above 1.56x, the projected low in 2023. Revenue calculations for both scenarios do not include any additional rate increases, and both complete execution of the $2.27 billion CIP. The MdTA has no variable-rate revenue bonds or swaps outstanding.

Outlook

The stable outlook reflects our expectation that, in the next two years, the system will reach traffic and revenue forecasts, resulting in good financial margins as debt service obligations increase. Should actual net revenue fall significantly below the projected range, we could lower the rating. We do not expect raising the rating during the next two years, because we expect future financial performance to be in line with historical levels, and strengths have been incorporated into the existing rating.

Related Criteria And Research

Related Criteria

- Criteria: Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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