S&P Global
Ratings

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Summary:

Maryland Transportation Authority; Toll Roads Bridges

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Credit Profile		
US$164.295 mil transp facs projects rev rfdg bnds ser 2017 due 07/01/2040		
Long Term Rating	AA-/Stable	New
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

S&P Global Ratings assigned its 'AA-' long-term rating to the Maryland Transportation Authority's (MDTA) pro forma $164 million series 2017 transportation facilities projects (TFP) revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on MDTA's parity revenue bonds outstanding. The outlook is stable.

The rating reflects our opinion that the authority's toll revenue system is mature and diverse, with stable costs and strong financial margins that we expect will continue as the authority implements its capital plan.

Specifically, the rating reflects our opinion of the MDTA's:

- 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);
- Historically very strong debt service coverage (DSC) that we expect to remain very strong, assuming generally modest growth in traffic levels, no toll adjustments, and increasing debt service requirements from bonds issued to fund the authority's Nice Bridge Project; and
- Historically strong liquidity position that we expect to remain so.

Partly offsetting the above strengths, in our view, are MDTA's large $2.57 billion capital transportation program (CTP) through fiscal 2023 that will be funded, in part, with cash reserves and additional new money debt.

Net revenue from facilities designated TFPs under the trust agreement secures the bonds. Bondholders are also entitled to a pledge against general account projects, but these are subject to authority termination, so we don't consider them in our analysis.

The proposed series 2017 bond proceeds, along with a $111.7 million contribution of authority cash reserves, will be used to current refund all of the authority's series 2007 TFP revenue bonds outstanding to achieve interest rate savings, cash fund a debt service reserve subaccount, and pay certain costs of issuance.

The authority, which was established in 1971, constructs, operates, maintains, and repairs various transportation-related facilities throughout the state. Seven projects are designated as TFPs: three Baltimore water-crossings--the Fort McHenry Tunnel, the Baltimore Harbor Tunnel, and the Francis Scott Key (Baltimore Harbor Outer) Bridge--in addition to JFK Memorial Highway, the Chesapeake Bay Bridge, the Nice (Potomac River) Bridge, and the Intercounty Connector (ICC), the last of which was designated a TFP in January 2008 and began operations in March 2011. The Express Toll Lanes also began operations in 2014 and are considered a part of the JFK Memorial Highway.

An eight-member board governs the MDTA, with the Maryland secretary of transportation as chairman. The chairman's dual role in the authority and the Maryland Department of Transportation facilitates policy and management coordination between the two agencies. The board members are appointed to staggered four-year terms to promote continuity between administrations. The authority has sole rate-setting powers on its tolled assets.

Toll rates were reduced beginning in fiscal 2016 after evaluation of various toll structures and their financial impacts. Prior to the toll rate reduction the authority implemented approved multiphase toll increases in November 2011, January 2012, and July 2013 to ensure that the authority adequately met its capital needs through 2015, as it partly debt-financed new projects while also maintaining the system. Because of higher than expected traffic levels and the toll rate increases in 2011 and 2012, pledged toll revenue outperformed forecasts, increasing $76.9 million, or 24.8%, from the eight tolled assets in fiscal 2012. The better-than-expected surplus net revenue would meet the authority's capital needs through 2024 instead of just through 2015. Because actual results far exceeded the authority's forecasts, it decided to reduce toll rates. On May 7, 2015 a package of toll and fee cuts was approved for a targeted $53.4 million reduction, beginning in fiscal 2016. Reductions included changing toll rates at the Bay Bridge, the ICC, and I-95; eliminating monthly maintenance fees for Maryland E-ZPass account holders; increasing the Maryland E-ZPass user discount; and implementing minor changes for multi-axle vehicles.

Systemwide traffic in fiscal 2016 was up 9.6% to 157.3 million when including the Express Toll Lanes and ICC, and was up 2.9% when excluding these. Toll revenue on the pledged facilities was down around 1.8%. Year-to-date toll revenue and traffic figures (for July 2016 to February 2017) are up by 5.3%. Recent updates (as of May 2017) indicate that fiscal 2017 revenue is trending 1.6% higher than projected.

Fiscal 2016 financial performance was strong, with less deviation from forecasts in terms of revenue despite the reduction. Under the MDTA's base case forecast, we expect its financial performance to remain consistent with historical levels, with budgeted drawdowns in cash reserves reducing liquidity to levels we still consider strong. Net pledged revenue yielded DSC of about 3.5x in fiscal 2016, which we consider very strong, although down from about 4.1x in fiscal 2015. Projections we consider reasonable show a gradual decline in DSC based on net pledged revenue to a still-strong level of about 2.4x in 2023 from about 2.8x in fiscal 2018, unencumbered cash reserves no lower than about $352 million, generally modest traffic growth, no toll rate adjustments, and additional debt issued to fund a portion of the Nice Bridge project.

Based on audited results, the MDTA had about $839 million in unrestricted cash and investments, or about 1,026 days' cash on hand or 36.5% cash to debt, as of fiscal year-end June 30, 2016. We consider the authority's liquidity position very strong, and we expect it to gradually draw down funds to defease a part of the 2007 bonds outstanding in connection with this proposed refunding and to fund some of its capital needs. We expect the MDTA liquidity position will be maintained at a level no lower than its policy-mandated $350 million unrestricted cash reserve, although management has maintained MDTA's unrestricted cash reserves in excess of this policy threshold.

The authority's draft 2018-2023 CTP totals $2.57 billion, consisting of $735.4 million for the Harry W. Nice Memorial Bridge project, $452.7 million for projects related to the Baltimore Harbor Tunnel and Thruway, $1 billion for facility-wide projects, $156.1 million for Fort McHenry Tunnel and I-95 and I-395 in Baltimore, $110.8 million for Willian Preston Lane Jr. Memorial Bridge, $57.5 million for John F. Kennedy Memorial Highway, $35.5 million for Francis Scott Key Bridge, and $15.4 million for the Intercounty Connector. The $735.4 million Nice Memorial Bridge project, which is underway, entails replacing the current bridge with a four-lane bridge in the vicinity of the existing bridge. The new bridge, which has an estimated total cost of $768.6 million, will increase safety and relieve congestion. Construction is scheduled to begin in fiscal 2020 with completion in fiscal 2023. The existing bridge will remain open during construction, and will be scheduled for demolition after the new bridge is open to traffic. As a result, we expect no revenue loss as a result of the construction of the project. We expect the authority will maintain DSC and unencumbered cash level in line with its policies. No future toll increases are required for the authority to meet these targets during the program period. Nationally accredited engineering firms inspect the system annually, and as of 2016 all of the authority's assets were in a state of good repair. The authority is projecting the issuance of $365 million of bonds during the six-year forecast period (2018 to 2023) primarily to fund the Nice Bridge project, with $250 million as a potential Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. Through fiscal 2020 we expect the authority will remain in compliance with the statutory debt limit of $2.325 billion, which will increase to $3 billion in fiscal 2021 and beyond. The authority has approximately $2.3 billion of debt outstanding secured by TFP, including approximately $530 million in TIFIA loans.

Outlook

The stable outlook reflects our expectation that, in the next two years, the system will maintain very strong DSC and a strong liquidity position as it manages its capital needs.

Upside scenario

We could raise the rating in the next two years if DSC and liquidity significantly improve to levels we believe are sustainable.

Downside scenario

We could lower the rating in the next two years if DSC and liquidity fall to levels lower than expected.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.