S&P Global
Ratings

RatingsDirect®

Summary:

Maryland Transportation Authority; Toll Roads Bridges

Primary Credit Analyst:
Anita Pancholy, Dallas (1) 214-871-1402; anita.pancholy@spglobal.com

Secondary Contact:
Kevin R Archer, Chicago (312) 233-7089; Kevin.Archer@spglobal.com

Table Of Contents

1779822 | 301664051

Summary:

Maryland Transportation Authority; Toll Roads Bridges

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

S&P Global Ratings 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 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 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 over 1,000 unrestricted days' cash on hand as of fiscal year-end 2016 (June 30) that we expect to decline to still strong levels; and
- Very strong historical debt service coverage (DSC) based on pledged revenue of 2.48x to 4.11x from 2012-2016, although we expect it to fall below 2.6x through 2022.

Offsetting these strengths is what we consider a large $2.4 billion capital improvement program (CIP) through fiscal 2022 that will require cash-spending and reduce liquidity levels, as well as additional debt needs in the medium term. Net revenues from facilities designated transportation facilities projects (TFP) under the trust agreement secure the bonds.

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, and the Nice (Potomac River) Bridge. The Intercounty Connector (ICC) 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 (MDOT) 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 most recently reduced beginning in fiscal 2016 after evaluation of various toll structures and their financial impacts. The authority had previously approved multiphase adjustments in 2011 to adequately meet capital needs through 2015, as it partially debt-financed new projects while also maintaining the system. Rates rose 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. Based on better-than-expected projections, these surplus net revenues would have provided capital funding through 2024, however, as opposed to 2015. This allowed for some capacity for the rate reduction. For example, fiscal 2014 toll revenue was 6.25% above projections. 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.

The board additionally approved a 1% to 2% reduction in the capital program effective 2016, and a 4% reduction in the annual operating budget to resize the workforce. The capital program was reduced at that time to $2.0 billion from $2.3 billion; however, the authority's board recently approved the replacement of the Harry W. Nice Bridge. The 2017-2022 capital plan totals $2.4 billion, and management plans to partially debt-finance this project. The average toll per vehicle declined to $4.87 from $5.14, which we view as high but similar to regional toll road costs. Historically, toll changes have not significantly affected traffic levels. However, the most recent round of rate adjustments, in addition to recessionary effects, slowed traffic growth and these rates were higher than most other government-owned statewide systems, because they are only collected in one direction on some of the facilities.

Currently, the noncommuter automobile cash toll rate on the authority's seven pledged facilities 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).

Fiscal 2016 financial performance was strong, with less deviation from its forecasted level in terms of revenues 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 levels to levels we still consider strong. Fiscal 2016 total pledged revenues were $705.8 million, down 0.3% compared with the forecast, whereas operating expenses excluding depreciation came in at $298.4 million, up 17.7%, due to a $21.4 million increase in the authority's allocated portion of the state's pension costs. Net pledged revenues yielded DSC of 3.31x, which we consider very strong, although notably down from 4.11x in fiscal 2015. Using the MDTA's base-case scenario on traffic and expenditures, which we consider reasonable, projected net revenues demonstrate DSC of no lower than 2.61x through

2022. Current debt service plateaus in 2021 and holds there through 2029, with maximum annual debt service of $141.2 million in 2022. The authority's stress scenario--assuming no growth beyond 2016 and $600 million in additional capital improvement needs--affects DSC, but through 2024 the MDTA would still hold DSC above 1.61x, the projected low, and would require significant additional debt to fund its capital program. Revenue calculations for both scenarios do not include any additional rate increases, and both complete execution of the CIP. The authority has no variable-rate revenue bonds or swaps outstanding.

According to management, the MDTA had about $786.1 million in unrestricted cash and investments as of fiscal year-end 2016, or about 961 days' cash on hand, or 36.5% cash to debt. The authority has a reserve policy of maintaining at least $350 million in unrestricted cash which we view as credit positive, particularly because it is likely to use cash on a pay-as-you-go basis to fund projects. In addition, management has maintained a track record of exceeding its policy threshold.

The bonds' security consists of a pledge on the net revenue of the MDTA's seven transportation facilities projects. 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 was up 9.6% to 157.3 million, including the Express Toll Lanes and ICC; excluding the latter, traffic was up 2.9%. Toll revenues on the pledged facilities were down around 1.8%.

The MDTA's six-year CIP for 2017-2022 totals $2.4 billion, which we view as large. We anticipate the authority will continue to prudently fund the plan through measured drawdowns in reserves as it is further refined to include the replacement project and associated debt. Replacement project costs are currently estimated at $590.4 million. In addition, cash from the capital fund and cash from operations on a pay-as-you-go basis will continue to fund the current CIP, absent major changes pending through the 2018 planning cycle. 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, 2016, including approximately $530 million in TIFIA loans. The CIP includes interchange improvements at I-95 and I-695. However, that concludes much of the large spending, aside from maintenance along the Express Toll Lanes. Other major projects include the $251.5 million in projects related to the Baltimore Harbor Tunnel. The system is inspected annually by a nationally accredited engineering firm, and as of 2016, all of the authority's assets were in a state of good repair.

Outlook

The stable outlook reflects our expectation that, in the next two years, the system will at least reach traffic and revenue forecasts, resulting in strong financial margins as debt service obligations and cash spending increase to fund the capital plan. The outlook also reflects our expectation that the MDTA will continue to prudently manage its operating performance as additional or new projects are clarified in terms of cost and funding.

Upside scenario

We do not expect raising the rating during the next two years, because we expect financial performance to be in line with historical levels, and the existing rating incorporates this credit strength.

Downside scenario

Should actual net revenue fall significantly below the projected range, we could lower the rating.

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.