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Summary:
Maryland Transportation Authority; Toll Roads Bridges

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Summary:

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Credit Profile		
US$55.0 mil transp facs proj rev rfdg bnds (tax-ex bnds) ser 2012		
Long Term Rating	AA-/Stable	New
Maryland Transportation Authority		
Long Term Rating	AA-/Stable	Affirmed
Maryland Transportation Authority (FGIC) (National)		
Unenhanced Rating	AA-(SPUR)/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 has assigned its 'AA-' rating to Maryland Transportation Authority's (MdTA) series 2012 transportation facilities projects (TFP) revenue refunding bonds. At the same time, Standard & Poor's has affirmed its 'AA-' underlying rating on parity revenue bonds outstanding. The outlook is stable.

MdTA is refunding its 2004 TFP bonds with the proceeds of this sale. Securing the bonds are the toll revenues from seven facilities, including the newly opened Intercounty Connector (ICC). MdTA covenants to set rates and charges such that the transportation facilities' net revenues equal at least 1.2x annual debt service and 1.0x the amount needed to fully fund the required maintenance and operations reserve. The additional bonds test requires that projected net revenue be at least 1.2x existing and proposed annual debt service in each of the four years following the completion date of the project financed with the additional bonds. In the fifth year, projected net revenue must cover pro forma maximum annual debt service 1.2x and budgeted deposits to the maintenance and operations reserve 1.0x.

The rating reflects our opinion of a mature, diverse, and relatively inelastic toll revenue system that is coming to the end of a significant capital program and will soon transition into a program with more focus on maintenance and preservation of asset operation. More specifically, the rating reflects what we view as the authority'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);
- Willingness and ability to raise tolls, with a three-phase toll increase adopted September 2011, designed to address needs through at least 2015, and that might cover operations until fiscal 2020;
- Strong liquidity, with 624 unrestricted days' cash on hand as of June 30, 2011. MdTA calculates days cash on hand differently from our formula. The authority excludes conduit and intergovernmental expenses and other noncash items, depreciation being the largest, from the operating expenses total used in its denominator to calculate a greater days cash value of 1,088; and

- Very strong historical debt service coverage (DSC) based on pledged revenue of 4.29x-6.04x from 2007-2011, including 5.02x in 2011. We expect projected covered to be closer to 2.5x, but still what we consider to be adequate.

We believe that countering these strengths are:

- A large but manageable capital improvement program (CIP);
- Continued construction risks associated with completing the I-95 Electronic Toll Lane project and the ICC, although both major projects are nearing completion; and
- Uncertainty surrounding user acceptance of the multiphase toll increases in September.

The authority has the sole ability to set toll rates. In May and July 2009, MdTA implemented various increases and fee adjustments to select vehicle classes, resulting in nearly $50 million per year in additional revenues. Following public hearings, the authority adopted a three-phase rate increase plan in September that will affect every facility. The first increase took effect Nov. 1, whereby two-axle vehicle rates (essentially passenger vehicles) increased varying amounts per facility. Commercial vehicle rates increased Jan. 1, 2012. We expect these two increases to result in $93 million per year in revenues. The third phase is to take effect July 1, 2013, and in the first full year of operation is forecast to result in $133 million in additional revenue. Once complete, the toll structure will be 68% greater than the structure at the beginning of fiscal 2012 (year ended June 30). The toll increases are needed to both cover system maintenance and to pay debt service payments as the debt service increases with completion of projects.

MdTA's unrestricted cash and investments position at fiscal year-end 2011 of $492.5 million is improved from $438.1 million in 2010, and was an all-time high. The increase is due to in large part to the authority having modified its reserve policy in 2009 to be the lesser of 100% of toll revenue or $350 million in unrestricted cash; we consider this policy to be an additional credit benefit. Although a hurricane and earthquake disrupted the regional economy in the first five months of fiscal 2012, revenues and expenditures are both in line with the $243 million operating budget.

The bonds' security consists of a pledge on the net revenues of the authority's six existing transportation facilities projects (TFP): 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 new ICC. Bondholders are also entitled to a pledge against certain general account projects, but these pledges are subject to MdTA termination, so we don't consider them in our analysis. Systemwide traffic in fiscal 2011 was up 2.6% compared with a year earlier, to more than 119 million vehicles, and similar growth occurred through the first six months of fiscal 2012.

The authority's remaining CIP through fiscal 2017 totals $2.17 billion, of which cash from the capital fund will cover about $1.79 billion (this includes $386 million in unspent bond proceeds). MdTA projects that an existing Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and additional debt issuance will cover $318.8 million of the CIP. In the plan's latter years, current projects end and are not replaced, leaving the focus of capital spending on maintenance. Throughout the CIP period, MdTA expects to remain under its $3.0 billion bond cap; it had $2.3 billion outstanding as of June 30, 2011.

The CIP includes completion of the ICC, a 17.5-mile east-west highway north of Washington, D.C., that will connect the Interstate 270 and I-95 corridors in Montgomery County and Prince George's County in Maryland.

Construction began in November 2007. An initial segment opened in February 2011; with the completion of two additional segments in November, the majority of the ICC, 16 miles, is now open. The project to date is under budget and MdTA now expects to complete it in 2014 at a cost of $2.43 billion, down from the $2.56 billion originally estimated. The other major project near completion is the addition of electronic toll lanes at the JFK facility on I-95. This $1 billion project has one major contract left to be bid on ($25 million); the authority expects the project to be complete at near estimate, $37 million over budget due to change orders associated with additional on-ramp coverage requested by the authority.

Including any additional revenue and parity TIFIA bonds, projected DSC will not remain at the high levels of the past few years. Using MdTA's base case scenario on traffic and expenditures, projected net revenues demonstrate DSC to hold near 2.5x through 2019, with a low of 2.3x in 2013. The worst-case scenario--assuming a long ramp-up in ICC use, declining systemwide traffic, and an additional $600 million in capital costs--stresses DSC, but through 2019 MdTA would still hold DSC above 1.34x, the projected low in 2019. Revenue calculations for both scenarios do not include any additional rate increases and complete execution of the $2.2 billion CIP. This refunding could improve coverage should the actual debt service meet the projected new debt The authority 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 revenues fall significantly below the projected range, we could lower the rating. We do not expect the rating characteristics to warrant an upgrade in the two-year outlook horizon, but we could consider a positive rating action should the authority transition away from major capital projects and more into maintenance while retaining strong cash and DSC levels.

Related Criteria And Research

USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007

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