

# RatingsDirect®

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## Summary:

# Maryland Transportation Authority; Toll Roads Bridges

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Credit Profile		
Maryland Transportation Authority		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Maryland Transportation Authority (FGIC) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Maryland Transp Auth transp</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has affirmed its 'AA-' rating on Maryland Transportation Authority's (MdTA) revenue bonds outstanding. The outlook is stable.

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 is transitioning into a program with a maintenance and preservation of asset operation focus.

More specifically, the rating reflects what we view as the MdTA's:

- Large and well-diversified system consisting of eight 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. The authority adopted a three-phase toll increase in September 2011 designed to address needs through at least 2015, and which might cover operations until fiscal 2024;
- Strong liquidity, with 940 unrestricted days' cash on hand as of fiscal year-end 2013 (June 30); and
- Very strong historical debt service coverage (DSC) based on pledged revenue of 4.29x-6.04x from 2007-2011. As debt service increases with the completed and near-completed projects, we expect coverage to lessen, but still remain what we consider to be strong. In fiscal years 2012 and 2013, coverage was 2.74x and 2.48x, respectively.

We believe that countering these strengths are the following factors:

- A large-but-manageable \$2.27 billion capital improvement program through fiscal 2019; and
- Uncertainty surrounding user acceptance of approved multi-phase toll increases and usage rates on the Inter-County Connector (ICC).

The MdTA sets its toll rates. In September 2011, it implemented a three-phase toll rate increase and fee adjustment to select vehicle classes throughout the system. The first increase took effect Nov. 1, 2011, whereby two-axle vehicle rates (essentially passenger vehicles) increased varying amounts per facility. Commercial vehicle rates increased Jan.

1, 2012. Due to these two midfiscal-year adjustments, pledged toll revenues increased \$76.9 million, or 24.8%, from the seven tolled assets in fiscal 2012 from fiscal 2011. The third and final phase took effect July 1, 2013. In December 2013, MdTA adopted a toll schedule for the I-95 Express Toll Lanes, to be effective when the facility is open in late 2014. The toll increases are needed to both cover maintenance of system assets and pay debt service payments, because the debt service increases with the projects' completion.

The MdTA's unrestricted cash and investments position at fiscal year-end 2013 was \$625.4 million, higher than that of the previous year, and another all-time high. The increase is due 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.

The bonds' security consists of a pledge on the net revenues of the MdTA's eight 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 open (but still partially under construction) 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. Systemwide traffic on the legacy facilities (excluding the ICC) of about 114 million vehicles in fiscal 2013 was down 2.7% compared with a year earlier. However, revenues were up by 10.35% as a result of recent toll increases. Traffic is forecast to decrease by 6.2% in fiscal 2014, and revenues are forecast to increase by 31.3% as a result of toll increases. Both traffic and revenue are forecast to increase by 1.1% in 2015.

The MdTA's remaining six-year capital improvement plan (CIP) through 2019 totals \$2.27 billion and focuses on maintaining existing facilities, including capacity enhancements, and the completion of the ICC and I-95 express toll lanes project. Cash from the capital fund will cover about \$1.81 billion (this includes \$245 million in unspent bond proceeds). The authority currently projects that the remaining balance on an existing Transportation Infrastructure Finance and Innovation Act (TIFIA) loan will cover \$132 million. In the CIP's latter years, the current projects end and are not replaced, leaving the focus of capital spending on maintenance. Throughout the CIP period, the MdTA expects to remain under its \$3.0 billion bond cap; it had \$2.3 billion outstanding as of June 30, 2013.

The CIP includes completion of the ICC, a 17.5-mile east-west highway north of Washington, D.C., that connects the interstates 270 and 95 corridors in Montgomery County and Prince George's County in Maryland. Construction began in November 2007. The majority of the ICC, 16 miles, opened in November 2011. To date, the project is under budget and the authority now expects to complete it in 2014 at a cost of \$2.39 billion, down from the earlier estimate of \$2.56 billion. The other major project near completion is the addition of electronic toll lanes on a portion of the JFK facility on I-95. This \$1 billion project has been fully bid out and we expect it to come in near-budget.

Including any additional revenue and parity TIFIA bonds, projected DSC will not remain at the high levels of the past few years. 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 2.25x through 2021. 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 management -- assuming an eight-year ramp-up in ICC use, declining systemwide traffic, and an additional \$600 million in capital costs -- stresses DSC, but through 2021, the authority would still hold DSC above 1.44x, the projected

low in 2021. Revenue calculations for both scenarios do not include any additional rate increases and 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 revenues fall significantly below the projected range, we could lower the rating, but we don't expect this during our two-year outlook period. We could upgrade the rating should the MdTA continue to transition away from major capital projects and into a more-maintenance focus, the adopted tolling strategy produce revenues in accordance with forecast, and cash and DSC levels remain appropriate for the rating category.

## **Related Criteria And Research**

- Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014
- USPF Criteria: Parking Revenue Bonds, June 13, 2007

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