FitchRatings

FITCH RATES MARYLAND TRANSPORTATION AUTHORITY'S TRANS FACILITIES PROJECT REV REFUNDING BONDS 'AA-'

Fitch Ratings-New York-03 February 2012: Fitch Ratings assigns an 'AA-' to Maryland Transportation Authority's (MdTA) approximately $67 million transportation facilities projects revenue refunding bonds, series 2012. Additionally, Fitch affirms the approximately $2.3 billion of outstanding transportation facilities project revenue bonds at 'AA-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

--CRITICAL TRANSPORTATION NETWORK: MdTA revenues are derived from a diverse system of six mature assets and the Intercounty Connector (ICC) that provide critical transportation links in a high volume market with limited competing facilities. The affluent metropolitan statistical area (MSA) of Baltimore and Washington D.C. also provide the authority with a high level of economic rate-making ability.

--DEMONSTRATED TOLL INCREASES: The authority has historically demonstrated strong ability to raise rates to maintain strong financial performance and to meet internal policies (maintaining coverage above 2.0 times [x], unencumbered cash above $350 million, and a statutory bond cap of $3 billion).

--STRONG FINANCIAL PERFORMANCE: MdTA has a demonstrated track record of producing solid debt service coverage ratios and retains a high level of financial flexibility.

--PRUDENT CAPITAL PLANNING: The authority's facilities are in good condition. The $2.2 billion 2012 - 2017 capital program balances system preservation and addresses congestion relief and service enhancements. The program is funded by solid balance between debt funding and pay-go.

WHAT CAN TRIGGER A RATING ACTION

--Under-performance of traffic and revenue, future toll rate increases that do not preserve financial margins, unmanageable expense growth, and growing deferral of life cycle preservation cost would pressure financial profile.

SECURITY

The bonds are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from a diverse system of seven toll facilities, including I-95 between Baltimore and the Maryland-Delaware state line; three bridges which cross the Chesapeake Bay near Annapolis, the Potomac River connecting Southern Maryland with Virginia and the Baltimore harbor; two tunnels on I-95 and I-895 which both cross Baltimore harbor and the ICC has been contributing since operations began in February 2011.

CREDIT UPDATE

In fiscal 2011, base traffic grew by 2.6% to 119.4 million and toll revenues increased by 1.6% to $308 million, respectively, exceeding the traffic consultant expectations. New toll rates were implemented on Nov. 1, 2011 and traffic impacts were minimal. Traffic declined only 0.26% in November and grew 1.29% in December over the prior year while revenues increased 25.3% and 27.4% for November and December, respectively, further supporting Fitch's opinion related to the authority's strategic transportation network and strong rate-making ability. Actual traffic for the portion of the ICC which was opened to the public in February 2011 is generally tracking to levels projected by traffic consultants.

Phase 2 of the approved three-phase toll increase which impacted certain truck classes took effect on Jan. 1, 2012 and phase 3 of the planned increase is scheduled for July 1, 2013. The recently implemented and near-term scheduled increases establish a higher degree of certainty that the authority will be able to meet short-term obligations while preserving financial margins. The toll increases include a number of changes including significantly higher toll rates, a reduction in the magnitude of certain discounts, changes to video tolling fees, and establishment of a 10% E-Z Pass discount from base cash tolls for Maryland E-ZPass account holders. Overall, the average toll is expected to increase to $5.08 in 2014 from $2.63 based on the traffic consultant report.

For fiscal year (FY) 2011, debt service coverage was robust at 5.0x. However, Fitch expects coverage to fall to approximately 2.4x by the end of the six-year capital program in 2017; a level still consistent with the current rating. The authority has a strong cash position with $492.5 million of unrestricted cash, equivalent to 1088 days cash on hand. The authority is also leveraged at 9.3x net debt to cash flow available for debt service (CFADS) which is expected to decline to a lower level when approved toll increases are implemented and has a debt per lane mile of $4.2 million.

Fitch's base case is similar to the traffic consultant projections which takes into consideration the approved toll increase along with conservative elasticity assumptions. As a result, the base case shows traffic decreasing to 105.3 million by FY2014 from 117.6 million in FY2011, approximately 10.5% lower than current levels. Under Fitch's Rating Case, which includes moderate traffic recovery, reasonable expense growth, and the approved toll rate increases, Fitch expects debt service coverage levels to remain above 1.8x in the medium term including the currently planned debt issuances under the 2012-2017 capital program.

Construction of the ICC is also making significant progress. The 17.5 mile long ICC project consists of four design build fixed-price contracts and is estimated to cost $2.4 billion. Contract A is complete and a five mile portion of the connector opened to traffic in February 2011. Revenues between commencement and fiscal year end totaled $1.43 million, in line with the traffic consultant projections. Contract B and C is expected to begin operations opened in November 2011. Bids for final combined contract D and E have been received and is scheduled for completion in June 2014.

MdTA was established by the Maryland General Assembly in 1971 and is responsible for the construction, operation, maintenance and repair of certain revenue-producing transportation facilities projects. The transportation facilities projects consist of the Potomac River Bridge, the Chesapeake Bay Bridge, the Baltimore Harbor Tunnel, the Baltimore Harbor Outer Bridge, the Ft. McHenry Tunnel, the Intercounty Connector and the John F. Kennedy Memorial Highway.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2011);
--'Rating Criteria for Toll Roads, Bridges, and Tunnels' (Aug. 5, 2011).

Applicable Criteria and Related Research:
Rating Criteria for Infrastructure and Project Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648832
Rating Criteria for Toll Roads, Bridges, and Tunnels
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=646421

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February 6, 2012

Summary:
Maryland Transportation Authority; Toll Roads Bridges

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Summary:

Maryland Transportation Authority; Toll Roads Bridges

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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MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 TO SERIES 2012 TRANSPORTATION FACILITIES PROJECT BONDS OF MARYLAND TRANSPORTATION AUTHORITY; OUTLOOK STABLE

Global Credit Research - 07 Feb 2012

AFFECT $2.3 BILLION OUTSTANDING BONDS

MARYLAND TRANSPORTATION AUTHORITY
Toll Facilities
MD

Moody's Rating

ISSUE	RATING
Toll Revenue Refunding Bonds, Series 2012	Aa3
Sale Amount $78,785,000	
Expected Sale Date 02/14/12	
Rating Description Revenue: Government Enterprise	

Moody's Outlook N/A

Opinion

NEW YORK, February 07, 2012 --Moody's Investors Service has assigned an Aa3 rating to the Series 2012 Transportation Facilities Projects Revenue Refunding Bonds of the Maryland Transportation Authority and affirmed the Aa3 bond rating on outstanding parity bonds. The outlook is stable.

RATING RATIONALE: The Aa3 is based on the essentiality of the authority's road network; strong historical and projected debt service coverage ratios (DSCRs); demonstrated ability and willingness to raise tolls to support capital projects and conservative financial practices and capital program management.

LEGAL SECURITY: The bonds are secured by a pledge of net revenues from six of the authority's seven toll facilities. Revenues from the Intercounty Connector (ICC) project, the authority's eighth facility, become part of the revenue pledge as the project is completed. The bonds are also secured by a cash-funded debt service reserve sized at the lesser of maximum debt service, 125% of average debt service or 10% of the principal amount of the bonds being issued. The authority's rate covenant requires net revenues to be at least the sum of 1.2 times annual debt service and 100% of the amount required to be deposited in the maintenance and operations reserve account. The additional bonds test requires the rate covenant to be met on a 5-year prospective basis.

The authority has a statutory debt limit of $3 billion.

USE OF PROCEEDS: Series 2012 bonds refund portions of Series 2004 bonds for estimated net present value savings of $5.6 million or 8.8% of refunded bonds with no change in debt structure or final maturity.

INTEREST RATE DERIVATIVES: None.

STRENGTHS:

* Long history of strong demand for the authority's multiple, essential and established transportation facilities in well-developed, affluent and slowly growing service area. Current unemployment in MSA is lowest among top 10 MSAs at 6%

* Consistently high debt service coverage ratios (DSCRs) and ample financial margins, though coverage will be reduced as outstanding debt is amortized

* Strong liquidity levels representing more than one year of operating expenses, though balances will be reduced to a minimum $350 million as the large capital improvement program (CIP) is funded

* Demonstrated willingness and independent ability to raise tolls when needed with projected minimal traffic impact. Toll rates remain relatively low despite doubling of commercial tolls in 2010 and one additional expected rate increase in July 1, 2013 (part of approved three part rate increase adopted September 2011)

CHALLENGES

* Modest amount of planned future debt, and total debt outstanding limited by statute to $3 billion

*Possible, though limited, cost increases for capital projects completion

*The indenture allows for funds to flow out of the system, when authorized by the authority. Until 2007 the authority made annual (fixed) payments to the Maryland Department of Transportation (MDOT), but has not made payments since then

OUTLOOK

The outlook is stable based on our expectation that the authority will be able to maintain its strong financial profile as it implements its large CIP and toll increases to support escalating debt service.

What Could Change the Rating - UP

Significant and sustained higher-than-projected traffic levels and toll revenues that increase debt service coverage margins above historic levels could put upward pressure on the rating.

What Could Change the Rating - DOWN

Greater declines in traffic and revenue levels than assumed in the authority's base case forecast combined with significantly higher debt financing of the CIP could place downward pressure on the rating. A sustained decline in the DSCR below the targeted 2 times in conjunction with other unfavorable developments would exert downward pressure on the rating.

DETAILED CREDIT DISCUSSION

SYSTEM FACILITIES PROVIDE ESSENTIAL TRANSPORT LINKS IN STRONG, STABLE ECONOMY

The authority's tolled assets cover a densely populated, high income service area and include the John F. Kennedy Memorial Highway (JFK), a 50-mile stretch of Interstate 95 (I-95) between Baltimore and the Maryland-Delaware border; three bridges crossing the Potomac River, the Chesapeake Bay, and the Baltimore Harbor and two tunnels connecting to I-95 and I-895. The authority also operates and collects tolls on the Hatem Bridge, which crosses the Susquehanna River, but these revenues are not pledged to bondholders. An eighth facility, the Intercounty Connector (ICC) construction is nearly complete and about $103 million under budget. The current MSA unemployment rate of 6% is the lowest among the top 10 MSAs.

As part of I-95, the Fort McHenry Tunnel in Baltimore is the most-traveled segment of the system, accounting for 38% of transactions and 30% of toll revenues in FY 2011. The JFK Highway accounts for the largest share of toll revenues at 34% of total. Annual system-wide traffic growth over the last 5 years has been essentially flat averaging -0.5% while toll revenue growth has averaged 2.5%. Over a 10-year period (2002-2011) the average growth rates were 0.2% and 6.1%, respectively. More recently, from 2010 to 2011 traffic grew 1.2% and revenues 1.1%.

The base case traffic and revenue forecast includes an 8.8% decline in transactions from 2012 to 2014, which factors in the projected elasticity effects of implemented and approved toll increases, followed by a 1% transaction growth in subsequent years. The base case assumes a three year ramp of ICC traffic based on full completion in 2014.

FINANCIAL POSITION AND PERFORMANCE: SYSTEM ESSENTIALITY AND ONGOING STRONG FINANCIAL RESULTS SUPPORT HIGH RATING

The authority has financial margins consistent with its high rating, though these margins will diminish as the CIP is implemented and debt service ramps up. Toll revenue growth has been aided by regular toll rate increases and fee adjustments since 2003.

In September 2011 the authority approved a series of toll increases to be implemented in phases. The first increase became effective on November 1, 2011; the second on January 1, 2012 and the third will be implemented on July 1, 2013. In 2009 the authority increased commercial toll rates by 50% and effective July 2009 the authority made several changes in commuter toll plans and added various service fees, including a $1.50 monthly electronic (EZPass) maintenance fee.

Annual debt service coverage has averaged a very high 5.02 times in FY 2011, and 3.36 times including annual transfers to the Maintenance and Operating (M&O) reserve account (these transfers are after debt service in the flow of funds). Debt service coverage is forecast at 2.44 times for FY 2012 and under the base case forecast remains comfortably above 2 times including planned new debt totaling $320 million through 2018. The authority's strong financial margins are also evidenced by its high margin after debt service, which measures free cash flow after payment of operating expenses and debt service as a percentage of gross revenues. Over the past five years, the margin after debt service has averaged 42.9%.

LARGE BUT MANAGEBLE CAPITAL PROGRAM WITH MODEST DEBT FINANCING

The authority's 2012 through 2017 draft consolidated transportation plan (CTP) identifies $2.173 billion in projects, including $450.3 million for the ICC completion; $473 million for the JFK Highway and $786.6 million for system-wide improvement and maintenance projects. Plan funding is expected to come primarily from authority capital funds and cash flow ($1.787 billion), and only $318.8 million in additional bonds.

The ICC is a 17.5-mile, tolled, limited access facility outside of Washington, DC, connecting I-270 (via I-370) in Gaithersburg to I-95 and US 1 south of Laurel and linking Montgomery (rated Aaa) and Prince George's (rated Aaa) counties. MDOT is managing the construction of this now $2.43 billion project (down from a budgeted cost of $2.56 billion). The roadway is open to traffic over the 16 miles from I-370 to I-95 ; the remining 1.5 mile segment from I-95 to US1 will be open in 2014. All major construction contracts have been awarded.

On account of the large capital program, annual debt service increases from $35.7 million in FY 2011 to approximately $141.3 million in 2016 before leveling off. Based on reasonably conservative traffic projections, which are consistent with long term historical traffic trends, we expect the authority will be able to meet its debt servicing obligations while maintaining above 2 times debt service coverage and maintaining a strong financial profile with a minimum of $350 million in available cash reserves. Assuming an unlikely combination of multiple stress scenarios: no traffic growth on the existing system, slower than forecast ramp-up of the ICC project as well as $600 million of increased capital costs, coverage would decline to 1.45 times in 2018, without any additional adjustments to toll rates.

The authority is an independent agency, with autonomous rate-setting authority, however the Secretary of the State Department of Transportation (MDOT) also serves as Chairman of the authority's 8-member board. The two agencies work together to address state-wide transportation needs and this high level of coordination benefits the authority as it undertakes capital projects. Until 2007 the authority had made annual payments of $43 million to MDOT for mass transit projects, which it is permitted to do per its bond indenture. Moody's notes that the authority does not currently plan to reinstate the transfers given the large amount of cash flow needed to complete the ICC and system-wide capital projects.

KEY INDICATORS:

Facility Type: Established, multi-asset, state-wide combined bridge and highway system

Toll Transactions, FYs 2010-2011: 1.2%

Toll Revenues, FYs 2010-2011: 1.1%

FY 2011:

Debt Service Coverage: 5.02x /3.35x[1]

Debt per Roadway Mile: $42,403

Debt per Transaction: $26.70

10-year/5-year AAG Total Toll Revenue: 6.1%/2.5%

10-year/5-year AAG Passenger Transactions: 0.2%/-0.5%

Debt Outstanding: $2.3 billion

[1] Excludes/includes transfers to M&O Fund

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The principal methodology used in this rating was State and Local Government-Owned Toll Facilities in the United States published in March 2006. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

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