FitchRatings

FITCH AFFIRMS MARYLAND TRANSPORTATION AUTHORITY'S TRANSPORTATION FACILITIES PROJECT REVS AT 'AA-'

Fitch Ratings-New York-02 April 2014: Fitch Ratings has affirmed Maryland Transportation Authority's (MdTA) approximately $2.3 billion of outstanding transportation facilities project revenue bonds at 'AA-'. The Rating Outlook is Stable.

The affirmation reflects resilient traffic performance on legacy facilities in the face of cumulative toll increases over the past three years of 60-140%, leading to a corresponding increase in revenue. Although debt service has also increased relating to new debt funding the Inter County Connector (ICC) and other capital projects, coverage and leverage both remain healthy, and commensurate with the current rating. As major capital works projects come to an end, Fitch expects toll rates to stabilize for forthcoming years and further expects only limited additional debt to be raised over that time frame.

KEY RATING DRIVERS:

Critical Transportation Network: MdTA revenues are derived from a diverse system of six mature assets and the ICC that provide critical transportation links in a high volume market with limited competing facilities. Revenue - Volume: Stronger

Demonstrated Toll Increases: The authority has consistently demonstrated strong ability to raise rates to maintain financial performance and meet internal policies. This ratemaking ability is supported by the facilities' affluent service areas comprising Baltimore and Washington D.C. metropolitan statistical areas. Revenue - Price: Stronger

Prudent Capital Planning: The authority's facilities are in good condition. The 2014-19 capital program mostly addresses system preservation and congestion relief, now that significant investment projects are largely completed. The program will mostly be cash-funded with limited additional debt expected. Infrastructure & Renewal: Mid-Range

Conservative Debt Structure: The authority operates according to a policy of maintaining DSCR above 2.0x, unencumbered cash above $350 million, and a statutory bond cap of $3 billion Debt Structure: Stronger

Strong Financial Performance: MdTA has a demonstrated track record of producing solid debt service coverage ratios and maintaining moderate leverage, and retains a high level of financial flexibility. The Fitch base case debt service coverage ratio (DSCR) averages 2.55x over the 10-year projection period and remains significantly above the authority's target of 2.0x in all periods; in its rating case Fitch expects DSCR to remain above 1.8x and leverage to peak no higher than approximately 8.0x, consistent with its current rating.

RATING SENSITIVITIES:

--Under-performance of traffic and revenue, inability to raise tolls to preserve financial margins, unmanageable expense growth, and growing deferral of life cycle preservation cost would pressure financial profile.

--A positive rating action will be unlikely until leverage associated with the authority's capital program, is significantly reduced.

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 crossing Chesapeake Bay, Potomac River and Baltimore harbor, two tunnels on I-95 and I-895 and ICC since operations began in February 2011.

CREDIT UPDATE:

In September 2011 the board approved a multi-phase adjustment to toll rates on its facilities. As a result tolls were adjusted on Nov. 1, 2011, Jan. 1, 2012, and July 1, 2013. These increases have had the effect of increasing tolls by between 60% and 140% across its various legacy facilities over this period, with relatively small effect on traffic: aggregate traffic fell from 116.3 million in fiscal year (FY) 2010, ending June 30, to 113.7 million in FY 2013, reflecting compound annual growth rate of -0.8% over the period, while at the same time toll revenue across the portfolio increased dramatically, from $308.5 million in FY 2010 to $411.6 million in FY 2013 (a 10.1% CAGR).

The authority's traffic consultant, Jacobs, forecasts a 6.2% fall in FY 2014 traffic to 106.7 million, reflecting the absorption of the most recent rate increase in July 2013. However, and despite the compound effect of the three successive toll increases, FY 2014 traffic in the first two months was 0.2% higher than that of the equivalent period in the previous year. This lends weight to the argument that the consultant's forecast is conservative. In terms of revenue, Jacobs' forecast for FY 2014 indicates strong continued growth, 31.3% on a year-on-year basis to $540.3 million despite its expectation of slightly contracting traffic; again actual performance in the first two months of the year suggests this to be conservative, with revenues actually 40% up on the equivalent period in FY 2013.

Jacobs' forecasts predict a slowing in revenue growth in the period to 2023 at a CAGR of around 1% from its 2014 revenue forecast, when revenue is forecast at $590.1 million, which makes sense in the context of no further toll increases over that period. The authority's ability to generate high revenue growth is capped by the commuter discount programs that it operates that allow commuters a 65% toll reduction as compared to the cash toll if used.

The authority's major capital investment activity of recent years is nearing completion. The final 1.5 mile stretch of the ICC facility in the Washington DC suburbs is expected to open imminently. Additionally, capital works included in the 2014-2019 plan, while substantial at $2.X billion in aggregate over the period, are largely focused on maintenance and renewal. Debt raising activity to fund capital works is expected to be limited in forthcoming years, mostly reflecting already committed undrawn TIFIA amounts. Furthermore, additional toll increases over the period should be limited, although the authority does retain the flexibility to enact further increases if necessary.

Given Fitch's view as to the reasonableness of the traffic consultant's forecasts, it has adopted the authority's base case forecasts as its own Fitch base case. In this scenario, DSCR averages 2.55x, falling no lower than 2.42x. Leverage remains relatively steady, peaking no higher than 6.6x.

Fitch's rating case envisages 0% traffic growth on the legacy portfolio between 2014 and 2017, after which traffic on these roads is assumed to grow at between 1% and 1.5% per year; it also assumes a slower ramp-up of traffic on ICC, growing at a CAGR of 4% through. The scenario reflects the same operating and capital expense forecasts as the base case, which are considered modest enough. The combined effect of the rating case assumptions is that average DSCR remains robust at 2.30x. However, the profile declines over the projection period to a level slightly below the authority's target level of 2.0x but remaining above 1.80x throughout. Similarly, leverage increases to around 8.0x towards the end of the 10-year projection period. These metrics remain in line with the current rating.

Contact:

Primary Analyst
Scott Zuchorski
Senior Director
+1-212-908-0659
One State Street Plaza
New York, NY 10004

Secondary Analyst
Charles Askew
Associate Director
+1-212-908-0644

Tertiary Analyst
Saavan Gatfield
Senior Director
+212-908-0542

Committee Chairperson
Seth Lehman
Senior Director
+1-212-908-0755

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (July 12, 2012);
--'Rating Criteria for Toll Roads, Bridges, and Tunnels' (Oct. 16, 2013).

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