FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Maryland Transportation Auth's Trans. Facilities Project Revs at 'AA'; Outlook Stable

Wed 20 Dec, 2023 - 10:17 AM ET

Fitch Ratings - Chicago - 20 Dec 2023: Fitch Ratings has affirmed the 'AA' rating of Maryland Transportation Authority's (MDTA or the authority) outstanding $2.1 billion transportation facilities project revenue bonds and approximately $202 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan series 2022A. The Rating Outlook on all of the bonds is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Maryland Transportation Authority (MD)				
Maryland Transportation Authority (MD) /Transportation Revenues - First Lien/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

RATING RATIONALE

The rating reflects MDTA's role as a vital system that provides diverse transportation links in the mid-Atlantic region, demonstrated traffic levels with resilience to economic conditions and a pricing framework that allows for a strong rate-making flexibility. The rating is supported by robust financial metrics. Under Fitch's rating case scenario, the 10-year average debt service coverage ratio (DSCR) is 2.1x and leverage (net debt over cash flow) is moderate at 5.8x in fiscal 2028. MDTA's substantial liquidity position, with over 900 days cash on hand (DCOH) as of fiscal 2023, coupled with conservative debt management policies, provides additional support to the rating.

KEY RATING DRIVERS

Revenue Risk - Volume - High Stronger

Critical Transportation Network: Fitch has revised its assessment of Revenue Risk (Volume) to 'High Stronger' from 'Stronger' following the publication of its "Transportation Infrastructure Rating Criteria," which assesses volume risk on a five-point scale.

MDTA revenues are derived from a diverse system of seven mature assets and the Inter County Connector (ICC) that provide critical transportation links in an affluent, high-volume market with limited competing facilities. The system's legacy facility transactions have historically experienced low elasticity when numerous significant toll increases have been introduced. Fitch considers passenger and commercial toll rates on the system as moderate relative to peers.

Revenue Risk - Price - Stronger

Demonstrated Toll Increases: The authority has independent rate-setting powers and a demonstrated ability to raise rates to maintain financial flexibility and meet internal policies. There are currently no plans for future toll increases; however, Fitch would expect the authority to implement further increases as necessary to protect its financial profile should the need arise.

Infrastructure Dev. & Renewal - Stronger

Prudent Capital Planning: The authority's facilities are in overall good condition. The $3.1 billion fiscal 2024-2029 capital program focuses on preservation and also addresses system expansion and congestion relief. The program is approximately 68% funded as pay-go, with the remaining funded with municipal issuances. In the next six years, the authority expects to raise approximately $1.0 billion of debt.

Debt Structure - 1 - Stronger

Conservative Debt Structure: All of MDTA's debt is senior ranking, fully amortizing and fixed-rate, supported by an adequate covenant package, which includes surety policy backed debt service reserve funds. The authority operates according to a policy of maintaining a DSCR above 2.0x, unencumbered cash above $400 million, and a statutory bond cap of $3.0 billion.

Financial Profile

MDTA has a track record of strong financial flexibility evidenced by solid DSCR and moderate leverage. Unaudited DSCR was 3.8x in fiscal 2023 versus the previous base case expectation of 2.7x. Fitch's 10-year rating case DSCR averages 2.1x. Leverage increases from 2.4x in fiscal 2023 to 6.2x by fiscal 2033 in the rating case as the authority is assumed to continue issuing debt without increasing tolls. Liquidity continued to remain strong in fiscal 2023, though balances are expected to be partially spent down as the authority executes its capital program.

PEER GROUP

Like MDTA, Florida Turnpike Enterprise (FTE; AA/Stable) and Pennsylvania Turnpike Commission (PTC; AA-/Stable senior and A/Stable subordinate) are essential facilities with strong catchments and limited direct competition. All three have considerable ongoing capital needs. The average rating case DSCRs for MDTA and FTE are comparable, but MDTA's leverage exceeds FTE's as additional debt is expected to be issued over the next six years. PTC's higher debt burden than both MDTA and FTE results in higher leverage, commensurate with PTC's lower ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Under-performance of traffic and revenue from further toll reductions or unwillingness to adjust tolls leading to sustained DSCR at or near 2.0x could pressure the rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

At the current rating level, a further upgrade is unlikely due to future investment and political risks inherent to toll systems.

CREDIT UPDATE

In fiscal 2023 (unaudited, year-end June 30), total system in-lane traffic (traffic counts regardless of collections) increased by 4% yoy and tracked very close to fiscal 2019 levels. Legacy facility (excluding the I-95 express toll lanes [ETL] and ICC) passenger traffic for fiscal 2023 almost fully recovered following the pandemic and commercial traffic surpassed fiscal 2019 levels by 15%. Passenger traffic on the new facilities (ICC and ETL) reached 99% of fiscal 2019 levels. Total system in-lane traffic for YTD 2024 (five months ended November) increased 4% compared with the same period in fiscal 2023.

Total toll revenue in fiscal 2023 increased by approximately 8% when compared with fiscal 2022 and met the previous base case. The increase in toll revenue is attributed to the systems passenger traffic recovery and commercial traffic growth.

On April 29, 2021, the MDTA successfully transitioned to its new toll collection system, the Third Generation Electronic Toll Collection System. Due to the suspension of cash collections and the conversion to all electronic tolling there was a temporarily large increase of more than $170 million in uncollected toll receivables in fiscal 2021. These receivables have continued to decline over the past several fiscal years due to realized collections and grace period programs. Toll receivables are anticipated to normalize in the near term.

In November 2023, the board approved a revision to the debt management policy that will require MDTA to maintain an unrestricted cash balance of at least $400 million. Fitch views the revision positively as it shows the authority's willingness to maintain a strong liquidity position.

FINANCIAL ANALYSIS

Fitch's cases include conservative assumptions for new debt issuances over the next six years and does not include any toll increases through fiscal 2033. Fitch's base case incorporates the sponsors toll revenue assumptions for fiscal 2024 followed by 1% growth per annum from fiscal 2025 to fiscal 2033 reflecting the mature nature of the system. Operating expenses grow at a 10-year CAGR of 4.1%. For this scenario, the 10-year DSCR averages 2.2x and year-five leverage (fiscal 2028) is 5.7x. Coverage levels dip below 2.0x after fiscal 2028 in the base case. However, Fitch expects that the authority would implement a toll increase or pursue cost cutting measures to meet its financial policy of 2.0x debt service coverage were these case conditions to occur.

The rating case mirrors the base case assumptions for fiscal 2024, but applies a hypothetical recession in fiscal 2025 with a 4% decline in toll revenues followed by a three-year recovery to base case levels. Operating expenses increase by 4.5% per annum. Under these conditions, the 10-year average DSCR is 2.1x and the year-five leverage is 5.8x. Similar to the base case, coverage levels dip below 2.0x after fiscal 2028 in the rating case.

SECURITY

The TIFIA loan entered into in 2022 as well as and the outstanding transportation facilities project revenue bonds are primarily secured by a first lien on the net revenues of the Transportation Facilities Projects.

ASSET DESCRIPTION

The Maryland Transportation Authority is an independent state agency tasked with the construction, operation, maintenance, and repair of certain revenue-producing Transportation Facilities Projects and General Account Projects. The authority operates a diverse system of eight 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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub. 18 Dec 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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