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Ratings

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Summary:

Maryland Transportation Authority; Toll Roads Bridges

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Credit Profile		
US$316.0 mil transp facs proj rev bnds ser 2020 due 07/01/2050		
Long Term Rating	AA-/Negative	New
Maryland Transportation Authority		
Long Term Rating	AA-/Negative	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the Maryland Transportation Authority's (MDTA) pro forma $316 million series 2020 transportation facilities projects (TFPs) revenue bonds. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on MDTA's existing TFP revenue bonds. The outlook is negative.

The series 2020 bond proceeds will fund near-term capital projects and replenish cash reserves to $400 million by June 30, 2020. The loss of net revenues available for capital spending due to lower traffic levels from the COVID-19 outbreak and associated impacts caused the MDTA to use some of its unrestricted cash reserves.

Net revenue from the facilities designated TFPs under the trust agreement secure the bonds. These TFPs currently include the JFK Memorial Highway (Interstate 95 [I-95]), the Fort McHenry Tunnel (I-95), the William Preston Lane, Jr. Memorial Bridge (U.S. Route 50/301), the Baltimore Harbor Tunnel (I-895), the Francis Scott Key Bridge (I-695), the Governor Harry W. Nice Memorial Bridge (US 301), and the Intercounty Connector (Maryland Route 200). Although bondholders are also entitled to a pledge against general account projects, these are subject to authority termination. The authority excludes the revenue and expenses associated with general account projects in its calculation of debt service coverage (DSC) as defined in the trust agreement. We also exclude these general account project revenues and expenses in our analysis. A debt service reserve funded to the lesser of maximum annual debt service, 125% of average annual debt service, or 10% of par provides additional liquidity to bondholders. All bonds outstanding, except for the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan, are supported by debt service reserves funded with surety policies.

After this proposed bond issuance the MDTA will have approximately $1.8 billion of debt outstanding, consisting of approximately $1.3 billion in revenue bonds and a $506 million series 2008A TIFIA loan, which we do not rate.

Credit overview

The rating reflects our expectation that management will implement measures to reduce expenses, defer capital spending, and use other means to maintain financial metrics that, although lower than historical levels, we believe will remain consistent with the current rating. Due to the challenges posed by the pandemic-induced recession and concerns of COVID-19 outbreaks and associated impacts, we believe MDTA traffic levels could be unpredictable or materially depressed over the near term, potentially causing a material and sustained decline in toll revenues for the remainder of 2020 and beyond. A negative rating action is possible, if we believe the MDTA's traffic levels and financial capacity will weaken for longer than we currently estimate. For additional information, see "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic," published March 26, 2020, on RatingsDirect, "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, and "Activity Estimates For U.S Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure," published June 4, 2020.

The ratings reflect our opinion of the TFPs very strong enterprise and financial risk profiles. Our enterprise risk profile assessment reflects our view of the mature system consisting of seven pledged tolled facilities (that generated about $675 million toll revenues from approximately 165 million transactions for fiscal year ending June 30, 2019) and that we believe provide essential service for central Maryland's highway, bridge, and tunnel network, including I-95. Our financial risk profile assessment reflects our expectation that COVID-19 and associated impacts on tolled traffic levels will cause a drag on financial performance for the remainder of 2020. However, we believe MDTA will be able to potentially maintain future financial metrics beyond 2020 at near pre-pandemic levels due to the organization's relatively quick recovery in traffic levels and management's ability to adjust operating expenditures, defer capital spending for non-essential projects not yet started, and increase toll rates, if needed.

MDTA officials report that system traffic levels were an estimated 57% lower for April 2020 compared with those reported for the same period the previous year, and an estimated 44% down for May 1-21 year over year. As a result of the effects of COVID-19 and associated impacts, we believe traffic could remain at these materially lower levels in the next few months. Traffic trends for the latter half of 2020 will be shaped, in our opinion, by the duration and severity of outbreaks, local requirements for shelter-in-place or social distancing, and potential shifting consumer behavioral trends. A traffic-and-revenue study done in connection with this bond issuance assumes transactions will be approximately 16% and 17% lower in 2020 and 2021, respectively, than they were in fiscal 2019. In 2022, the study shows transactions at 1% below fiscal 2019 followed by a gradual increase in fiscal years 2023-2025, ranging from 1%-5% above fiscal 2019 levels. If actual transactions track closely to this forecast, we believe the authority will maintain financial metrics consistent with the current rating. Nevertheless, although the MDTA has a track record of exceeding forecasts and using conservative forecasting assumptions, we believe traffic could be materially lower than forecast due to the unique challenges posed by the COVID-19 outbreak and associated impacts.

Over the coming weeks and months, we will continue to monitor MDTA's current and near-term financial performance as management implements mitigation measures to counter weakening traffic levels and reductions in toll revenues.

Key credit strengths in our opinion are the MDTA's:

- Favorable historical TFP traffic trends, strong competitive position, and what we believe are minimal restrictions on pricing power;
- Conservative approach to financial and capital planning, history of meeting or exceeding operational and financial goals, detailed financial forecasting that it updates frequently, and a very capable staff that has considerable experience operating a tolling agency; and
- Historically high DSC levels (above 3x), and very strong debt capacity, liquidity, and financial flexibility, which we

believe will mitigate the financial stresses from COVID-19 and associated impacts.

Key credit weaknesses, in our view, are MDTA's:

- Material decline in TFP toll transactions due to stay-at-home and social-distancing restrictions associated with the COVID-19 pandemic, and the potential for traffic levels for the remainder of 2020 and beyond to be unpredictable due to changing work and commuting habits, repeated COVID-19 outbreaks, and elevated unemployment levels from the pandemic-induced recession; and
- Significant additional debt needs to fund a large $2.8 billion capital improvement plan for fiscal years 2021-2026, which will likely pressure DSC levels.

Environmental, social, and governance (ESG) factors

The rating action incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor that is causing significant operating and financial pressures for the toll-road system. We analyzed risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the toll-road sector. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

The negative outlook reflects our expectation that we could lower the rating within two years or possibly within 12 months, depending on the severity and duration of the COVID-19 outbreak and associated impacts on MDTA's operations. While our outlook horizon can be up to two years, given the severity of the developments and the fluid nature of MDTA's particular situation, we expect greater clarity of the likely effects to the MDTA over the next several months. We could revise the outlook to stable within 12 months if we receive clarity on when and how well traffic levels recover and we believe MDTA's ability to maintain financial metrics consistent with the current rating is sustainable.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020