Maryland Transportation Authority

FINANCE COMMITTEE

THURSDAY, JANUARY 11, 2024

MARYLAND TRANSPORTATION AUTHORITY
2310 BROENING HWY
BALTIMORE, MD 21224

FINANCE COMMITTEE MEETING AGENDA
January 11, 2024 – 9:00 a.m.

This meeting will be livestreamed on the MDTA Finance Committee Page

NOTE: This is an Open Meeting being conducted via livestreaming. The public is welcomed to watch the meeting at the link listed above. ***If you wish to comment on an agenda item please email your name, affiliation, and agenda item to cdickinson@mdta.state.md.us no later than noon on Wednesday, January 10, 2024. You MUST pre-register in order to comment.*** Once you have pre-registered you will receive an email with all pertinent information.

AGENDA

OPEN SESSION

Call to Order

1.	**Approval** –	Open Meeting Minutes from December 7, 2023	Chairman von Paris	5 min.
2.	**Approval** –	Contract No. MT-00210896 – Janitorial Services – FSK Facility	Toni Caschera	5 min.
3.	**Approval** –	Toll Revenue Bonds Refinancing	Allen Garman	10 min.
4.	**Update** –	Update on Non-recourse Financings & Loans – Annual update on outstanding non-recourse debt financings and MDTA loans to other TBUs	Allen Garman Yaw Berkoh James Walsh, MAA	15 min.
5.	**Update** –	Credit Ratings Update	Allen Garman	5 min.

Vote to Adjourn

ITEM

1

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, DECEMBER 7, 2023
OPEN MEETING VIA LIVESTREAMING

OPEN SESSION

MEMBERS ATTENDING:	Cynthia Penny-Ardinger Dontae Carroll Jeffrey Rosen John von Paris
STAFF ATTENDING:	Catherine Anderson Erika Brantley Jeffrey Brown Percy Dangerfield Jeffrey Davis Cheryl Dickinson Allen Garman Chantelle Green Natalie Henson Richard Jaramillo Cheryl Lewis-Orr Charles Markakis Kimberly Millender, Esq. Ken Montgomery Mary O'Keeffe Carmine Picarelli Deb Sharpless Tim Sheets Jennifer Stump Clayton Viehweg John Wedemeyer

At 9:00 a.m., Member John von Paris, Chair of the Finance Committee, called the Finance Committee Meeting to order.

APPROVAL – OPEN MEETING MINUTES FROM NOVEMBER 9, 2023 MEETING

Member von Paris called for the approval of the meeting minutes from the Open Meeting held on November 9, 2023. Member Dontae Carroll made the motion, and Member Jeffrey Rosen seconded the motion, which was unanimously approved.

APPROVAL – CONTRACT NO. J01B4600002 – HEWLETT PACKARD ENTERPRISES SYNERGY HARDWARE, INSTALLATION AND TRAINING

Mr. Charles Markakis requested a recommendation of approval from the Finance Committee to present Contract No. J01B4600002, Hewlett Packard Enterprises (HPE) Synergy Hardware, Installation and Training, to the full Maryland Transportation Authority (MDTA) Board at its next scheduled meeting.

The Small Business Reserve contract is for the provision of a one-time purchase of HPE Synergy Hardware, Installation, Training and Extended Warranties for use by the MDTA Intercounty Connector Data Center and the MDTA John F. Kennedy Data Center. The total amount for this contract is $736,781.30.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at the next scheduled meeting. Member Rosen made the motion and Member Penny-Ardinger seconded the motion, which was unanimously approved.

APPROVAL – CONTRACT NO. MT-00211148 – JANITORIAL SERVICES – WPL MEMORIAL BRIDGE FACILITIES

Ms. Catherine Anderson requested a recommendation of approval from the Finance Committee to present Contract No. MT-00211148, Janitorial Services – WPL Memorial Bridge Facilities, to the full MDTA Board at its next scheduled meeting.

The contract provides comprehensive janitorial services including supervision, supplies, labor, and equipment at the William Preston Lane Memorial Bridge facilities. The contract will be performed by National Center on Institutions and Alternative, Inc. (NCIA). NCIA is a Community Service Provider. Janitorial supplies are included in the contract, and the contract specifies that supplies be purchased from Blind Industries of Maryland, also a Community Service Provider.

The cost for the base three-year contract term is $803,839.45. The contract also contains a two-year renewal option of $562,744.35. The total cost for the five-year contract term is $1,366,583.80. There is no MBE/VSBE Goal for this provider since they are a preferred provider.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at the next scheduled meeting. Member Carroll made the motion and Member Rosen seconded the motion, which was unanimously approved.

APPROVAL – CONTRACT NO. SV-00210586 – RIGHT OF WAY SERVICES

Mr. John Wedemeyer requested a recommendation of approval from the Finance Committee to present Contract No. SV-00210586, Right of Way Services, to the full MDTA Board at its next scheduled meeting.

This contract is for the provision of professional Right of Way support services, such as project management, the development of right-of-way cost estimates, real estate appraisals and appraisal reviews, real estate surveys and survey reviews, support for acquisitions and dispositions, support for relocations, support for settlements, condemnation support, GIS (Geographic Information System Mapping) support, title services, and other related right-of-way services. The resulting contract will assist the Real Estate Services staff in meeting its short-term and long-term goals.

Two proposals were received, and the recommended awardee was Johnson, Mirmiran & Thompson, Inc. (JMT). They were ranked first overall and provided the best value to the State. This contract has a three-year base term with a two-year renewal option for a total contract term of five years and a Not to Exceed amount of $11,467,000.00.

Member von Paris called for a motion to recommend approval of this item to the full MDTA Board at the next scheduled meeting. Member Penny-Ardinger made the motion and Member Carroll seconded the motion, which was unanimously approved.

APPROVAL – INVESTMENT COMMITTEE REPORT

Mr. Allen Garman and Mr. Clayton Viehweg provided an update to the Finance Committee on the activities of the Investment Committee for the period ended September 30, 2023. The update included a review of market conditions, portfolio strategies, total return performance, and dealer trade allocations. Market drivers that may influence portfolio performance in the coming months were also discussed, including the economy, fiscal policy, and Federal Reserve monetary policy. Mr. Garman noted that the Investment Committee is not recommending any changes to the investment strategy at this time.

Member von Paris called for the approval of the Investment Committee Report. Member Rosen made the motion, and Member Penny-Ardinger seconded the motion, which was unanimously approved.

UPDATE – 1ST QUARTER OPERATING BUDGET VERSUS ACTUAL SPENDING

Mr. Jeffrey Brown updated the Finance Committee on actual versus projected year-to-date spending for the first quarter of FY 2024. As of September 30, 2023, 15 percent of the operating budget was spent compared to the target of 23 percent. All objects were below the targeted spending level. The primary driver for the reduced spending was personnel vacancies and seasonality of expenses.

UPDATE – 1ST QUARTER CAPITAL BUDGET VERSUS ACTUAL SPENDING

Ms. Jennifer Stump updated the Finance Committee on actual year-to-date spending for the first quarter compared to projected spending as shown in the FY 2024-2029 Draft CTP. As of September 30, 2023, 9.1 percent of the FY 2023 capital budget was spent as compared to the target of 25 percent. Ms. Stump indicated that capital spending for the first quarter is low because of outstanding accruals for work completed in FY 2023.

UPDATE – 1ST QUARTER FY 2024 TRAFFIC AND REVENUE PERFORMANCE REPORT

Ms. Cheryl Lewis- Orr provided the Finance Committee with a quarterly and year-to-date update regarding traffic and toll revenue trends compared to the previous year and the forecast. The key takeaways regarding year-to-date traffic and revenue performance are that (1) passenger vehicle traffic levels continue to track closely to pre-pandemic levels; (2) commercial vehicle traffic levels continue to outperform pre-pandemic levels; and (3) for the first quarter of FY2024, there is practically no variance in the forecast vs actuals. Actual traffic and revenue were used in the first three months of the forecast.

There being no further business, the meeting of the Finance Committee adjourned at 9:49 a.m., following a motion by Member Rosen, and seconded by Member Carroll.

John von Paris, Chairman

ITEM

2

MEMORANDUM

To: Finance Committee
From: Toni Caschera, Operations Support Services, Contract Manager
Through: Cathe Anderson, OSS, Contracts and Projects Program Administrator
Subject: Contract No. MT-00210896, Janitorial Services – FSK Memorial Bridge Facilities
Date: January 11, 2024

PURPOSE OF MEMORANDUM

The purpose of this memo is to present the above-mentioned contract award to the Finance Committee for contingent approval.

SUMMARY

This contract provides comprehensive janitorial services including supervision, supplies, labor, and equipment at the Francis Scott Key (FSK) Memorial Bridge facilities. This contract will be performed by a Community Service Provider: **Alliance, Inc**. The Pricing and Selection Committee approved the rates for these services on December 21, 2023. Janitorial supplies are included in the contract total and the contract specifies that supplies be purchased from Blind Industries of Maryland, also a Community Service Provider.

- Cost for base three years: **NTE: $1,213,252.70**
- Cost for two-year renewal: **NTE: $ 855,343.64**
- Total cost for five years: **NTE: $2,068,596.34**

- MBE/VSBE Goal: 0% (Preferred Provider)

Bid justification is not required.

This Contract exceeds the delegated procurement authority of the Maryland Transportation Authority; and therefore, will be presented to the Board of Public Works on **January 17, 2024**.

RECOMMENDATION

To obtain contingent recommended approval by the Finance Committee to present the above-mentioned contract to the full MDTA Board at its next scheduled meeting.

ATTACHMENT

- Finance Committee Project Summary

Maryland Transportation Authority

FINANCE COMMITTEE PROJECT SUMMARY

Contract No. MT-00210896 Janitorial Services - Francis Scott Key (FSK) Memorial Bridge Facilities

PIN NUMBER	N/A
CONTRACT NUMBER	MT-00210896
CONTRACT TITLE	Janitorial Services - Francis Scott Key (FSK) Facilities

PROJECT SUMMARY

This (Community Services) contract provides comprehensive janitorial services including supervision, supplies, labor, and equipment at the (FSK) Memorial Bridge facilities: Alliance, Inc. The Pricing and Selection Committee approved the rates for these services on December 21, 2023. Janitorial supplies are included in the contract total and the contract specifies that supplies be purchased from Blind Industries of Maryland, also a Community Service Provider.

SCHEDULE

ADVERTISEMENT DATE	N/A
ANTICIPATED NTP DATE	3/1/2024
DURATION/TERM	Three (3) Years w/one 2-Year Renewal Option

MBE PARTICIPATION (N/A)

MBE PARTICIPATION - OVERALL	**ADVERTISED GOAL (%)**	**PROPOSED GOAL (%)**
OVERALL MBE	0.00%	0.00%
VSBE	0.00%	0.00%

BID PROTEST	**YES**	**NO**
		✓

NAME OF COMPANY	**PRICING**
Alliance, Inc.	$2,068,596.34 **(NTE) Cost for 5 Years**

ITEM

3

MEMORANDUM

TO: Finance Committee
FROM: Allen W. Garman, Deputy Director of Finance
SUBJECT: Toll Revenue Bonds Refinancing
DATE: January 11, 2024

PURPOSE OF MEMORANDUM

Request the Finance Committee's concurrence and recommendation to authorize the issuance of toll revenue bonds to refinance a portion of outstanding debt for economic savings. The refinancing authority granted in Resolution No. 23-02 (approved in December 2023) will be expanded in a new resolution to increase the authorized par and include tender candidates from other bond series. A formal resolution (Resolution No. 24-01) will be presented to full MDTA Board on January 25, 2024.

SUMMARY

Key Refinancing Goals

1. Make-Whole Call - Build America Bonds, Series 2009B/2010B
    a. Interest Cost Savings
        i. Net Present Value cash flow savings of combined initial refinancing and subsequent refunding.
    b. Risk reduction associated with sequestration and uncertain federal subsidy payments.
        i. The fixed rate nature of the coupons has been unexpectedly variable as a function of less than promised federal subsidies.
        ii. Risk of future subsidy cuts.
2. Debt Tender Offer - Series 2017, 2020, 2021
    a. Interest Cost Savings - Net Present Value cash flow savings.

Resolution No. 23-02 authorized refunding bonds to refinance the Series 2009B and 2010B taxable Build America Bonds for economic savings utilizing the make-whole call provision. An amended Resolution No. 24-01 will expand the authorization to include economic refinancings for certain maturities of the Series 2017, 2020, and 2021 bonds through a secondary market tender process.

Specific to the debt tender candidates, certain maturities of the outstanding tax-exempt toll revenue bonds were issued with low coupons and are now trading in the secondary market at large discounts to face value. Bond price declines may be exacerbated in a higher rate environment as a function of the IRS Market Discount Rule that unfavorably taxes a portion of a bond's gain to par through maturity.

The market dependent refinancings could occur as soon as February 2024 and will be sized to account for the call/tender premiums or discounts, refinancing bond premiums, and costs of issuance, including funding a debt service reserve.

Tender Opportunity Considerations

1. Tender solicitation may yield only a small portion of the desired securities, e.g., 25% of a targeted $300 million.
2. Market distortions may create greater NPV savings opportunities, focus on purchasing bonds trading at discounts to par.
3. Given the uncertainty and small size, tender process is more economic in conjunction with another larger financing.
    a. Small tender based refinancing shares costs of issuance in terms of Official Statement preparation and credit ratings fees.
4. Analysis of call option value lost and call option value gained by reissuing premium structure bonds with longer call dates.
5. Analysis of Refunding Efficiency[1], capture of savings today relative to expected future refinancing savings.

The Executive Director and Chief Financial Officer (CFO) will have the authority to manage the bond sale and closing, including the award of the 2024 bonds to the successful underwriting firm(s) and/or negotiation of terms for a private placement. The resolution also provides for authority to select other service providers and to prepare and execute all closing documents, certificates, and bond forms.

Resolution No. 24-01 will contain the following limiting and reporting provisions:

1. Par Amount – Limited to $1.07 billion.
2. Economic Savings
    a. Build America Bonds Refunding - Must Exceed $1 Million, Net of NPV Savings/Dissavings of Refunding and Projected Cash Flow Savings Incorporating Gained Par Call Options and Subsequent Refinancing.
    b. Tender Option Candidates – Must Exceed $1 million.
3. Bond Sale Date – No later than December 31, 2024.
4. Bond Sale Reports on Results – Provided by the Executive Director and CFO at the first Board meetings after the sale dates.

[1] Refunding Efficiency = PV (Savings) / (Option Value *old* - Option Value *new*)

RECOMMENDATION

Finance Committee's concurrence to move to the full board for approval of the Toll Revenue Bonds Refinancing amending and replacing Resolution No. 23-02 with MDTA Board Resolution No. 24-01.

ITEM
4

MEMORANDUM

TO:	MDTA Board
FROM:	Yaw Berkoh, Debt Administrator Allen W. Garman, Deputy Director of Finance
SUBJECT:	Non-Recourse Debt Update
DATE:	January 11, 2024

PURPOSE OF MEMORANDUM

To provide a required update on contracts and project improvements at BWI Marshall Airport that are funded from pledged passenger enplanement fees and consolidated rental car facility fees, as well as the status of other conduit financings and the loan to MAA.

SUMMARY

Key Points

1. Passenger Facility Charge improvement account funds on hand and projected net revenues are sufficient to meet near term capital expenditure needs of projects approved by the MDTA.
2. Consolidated Rental Car Facility improvement account funds on hand and projected net revenues are sufficient to meet near term capital expenditure needs of projects approved by the MDTA.

Section 3 of Resolution 14-03 requires periodic updates to the Finance Committee and board on MAA contracts and project improvements that are funded from PFC (Passenger Facility Charge) and CRCF (Consolidated Rental Car Facility) pledged revenues. The PFC Financing Agreements and the CRCF Financing Agreement require the MDTA Board approval of all contracts prior to MAA's submission to the Board of Public Works. The 2014 board resolution delegated authority to the Executive Director to approve contracts funded from pledged PFC and CRCF revenues.

In 2018, the MDTA Board authorized a $50 million loan to the Maryland Aviation Administration (MAA) to finance certain improvements at BWI Airport.

ANALYSIS

Nonrecourse Debt

Obligor	Series	Final Maturity	Pledged	Par At Issue	Par Outstanding	Funded	Coupon
BWI Rental Car Facility	2002	7/1/32	Car Rental Fees	$ 117.3	$ 60.0	BWI Car Rental Facility	Fixed
BWI PFC	2012A	6/1/32	Enplanement Charges	50.9	28.2	Airport Projects	Fixed
BWI PFC	2012B	6/1/27	Enplanement Charges	92.1	30.0	Airport Projects	Fixed
BWI PFC	2014	6/1/32	Enplanement Charges	40.0	26.3	Airport Projects	Fixed
BWI PFC	2019	6/2/39	Enplanement Charges	108.7	97.3	Airport Projects	Fixed
Calvert Street Parking Garage	2015/05	7/1/32	State Appropriation	23.8	12.4	State Garage Annapolis	Fixed
				$ 432.8	$ 254.2		

December 31, 2023

The 2012 BWI Parking Garage Bonds were defeased on 2/25/2021.
The 2014 WMATA Bonds were defeased on 4/29/2021.
The 2012C BWI PFC Bonds were defeased on 9/20/2023.

BWI Consolidated Rental Car Facility (CRCF)

The MDTA issued $117.3 million of taxable revenue bonds in 2002 to finance the construction of the CRCF, a shuttle bus maintenance facility, vehicle storage facilities, and related roadway and utility infrastructure improvements. As of December 31, 2023, outstanding bonds totaled $60 million. Pledged revenues are derived from a fee of $5.75 per rental car transaction, with capital improvements funded from net CRCF pledged revenues. The transaction rate was raised from $3.75 on January 1, 2024. This was the first increase since 2008 and was necessitated to strengthen debt service coverage above the targeted 1.5-times and provide funds for capital preservation.

BWI enplanements for FY24 are projected to exceed prepandemic levels, though the rental transactions are projected to remain lower as a function of national industry trends for car usage in favor of alternative transportation such as ride-hail services. Based on the Maryland Aviation Administration's (MAA) forecast, fiscal 2024 revenue is expected to be sufficient to pay debt service. Incorporating the new rental car rate for the second half of FY24, MAA is projecting coverage to exceed 1.5-times, comfortably above the 1.25 times Rate Covenant.

Combined Reserves in the Facility Improvement Fund and the Coverage Fund exceed $11 million or 125% of annual debt service, providing additional financial flexibility.

BWI Passenger Facility Charge (PFC)

In 2012, 2014, and 2019, the MDTA issued a combined $335 million in five series of PFC backed revenue bonds for infrastructure improvement projects at BWI Airport. Pledged revenues are derived from a charge of $4.50 per passenger. As of December 31, 2023, outstanding bonds totaled $181.8 million. Capital improvements are funded from bond proceeds and net PFC pledged revenues. Net Revenues held in the Improvement Fund and available for projects total $57.4 million.

Of the $118 million of Series 2019 bond proceeds, $16.1 million remains in the Construction account that is expected to be spent by fiscal 2024. Per IRS rules for tax-exempt financings, a normal arbitrage calculation is required on the five-year anniversaries of issuance. Prevailing investment earnings rates for the unspent bond proceeds have risen above the bond yield, so it is possible that the construction account will generate modest earnings above the bond yield that must be rebated to the IRS. Arbitrage refers to the profit from borrowing funds in the tax-exempt market and investing bond proceeds in the taxable market. Favorably, positive arbitrage results in no carrying costs for unspent bond proceeds.

Following the pandemic associated decline in enplanements, collections have experienced significant recovery with revenues for the first five months of fiscal 2024 at 98% of prepandemic levels relative to the comparable period of fiscal 2020. The fiscal 2023 debt service coverage ratio was 2.01 times. Based on MAA projections, fiscal 2024 debt service coverage is estimated at 2.23 times.

Calvert Street Parking Garage

In 2005, the MDTA issued $23.785 million Parking Lease Revenue Bonds for Calvert Street Parking Garage Project in Annapolis, Maryland. The employee parking facility is operated by the Maryland Department of General Services (DGS) through an intergovernmental financing agreement. Debt service is funded through state appropriations.

MAA Loan

The $20 million lending agreement to finance Concourse A improvements was executed on February 10, 2020, with MAA draws permitted through September 30, 2020. Principal and interest payments began on January 15, 2021. Level debt service at a 1.53% financing rate will be paid through July 15, 2033. The loan may be prepaid at any time.

ATTACHMENTS

PFC and CRCF Project Tables

Baltimore/Washington International Thurgood Marshall Airport
Status Update of Customer Facility Charge (CFC) Funded Projects for MDTA

Update 12/19/23

- The FY24 budget for CFC funded projects totals $432,491 with FYTD expenses totaling $7,037. Open Projects include the following:

Project	FY24 Budget	FYTD
BMF Equipment Replacement	$223,825	$1,352
Vendor Reallocation Study	$208,666	$5,685
Total FY24	**$432,491**	**$7,037**

- Please see the following chart for detailed project information. Project Cost includes design, program management, construction management, and construction.

Project Title	Project Scope	Project Status	Total Project Estimate	Total Project Expenses To Date
BMF Equipment Replacement	Replacement equipment to include bus wash system, air and central vacuum system and CNG detection upgrades.	Substantially Complete	$2,092,936	$1,870,463
Vendor Reallocation Study	Evaluate the proposed space reallocation of the existing consolidated rental car facility, including infrastructure for EV charging needs	Underway	$208,666	$5,685
Total			**$2,301,602**	**$1,876,148**

- The following two requests are pending for consideration:

Project Title	Project Scope	Fiscal Year	Total Project Estimate
CRCF Facility Improvements Design	Design and project management costs to address life safety and code related improvements, including ADA-compliance and fire safety for the CRCF. Projects will include the parking garage, customer service building, and bus maintenance facility.	FY 2024	$500,000
Electrical Infrastructure for EV Design	Design and project management costs to provide additional electric charging capacity for electric vehicles to the consolidated rental car facility.	FY 2025	$1,000,000
Total			**$1,500,000**

Baltimore/Washington International Thurgood Marshall Airport
Status Update of PFC Funded Projects for MDTA

Passenger Facility Charge Program – Bond Funds

- As of January 2024, two bond funded projects are under construction and are expected to be completed by end of FY 2024.
    - Restrooms Improvements
    - Concourse D HVAC

PFC Project #	Project Name	Project Scope	Project Status	Project Cost*	Expenses To Date
13-04	Restroom Improvement Program	This program will renovate 64 BWI Marshall Airport restroom facilities over a four-year period. Scope includes some facility expansion, new fixtures, addition of stalls, new partitions, and supporting infrastructure.	Project under construction. Expected completion in Spring 2024.	$69,042,694	$54,782,566
13-08	Concourse D HVAC Replacement	This project will replace the existing HVAC systems serving the DY and commuter portions of Concourse D. Improvements include replacement of ceiling systems throughout the DX, DY, and commuter portions of the concourse.	Project completed. Awaiting final invoices.	$17,701,272	$16,865,202

**Cost Estimate includes design, program management, construction management, and construction.*

Passenger Facility Charge Program – Improvement Funds

- As of January 2024, five projects funded by the Improvement Fund are underway and are expected to be completed by 2026.
  - Property Acquisition
  - Residential Sound Mitigation Program
  - BWI Mobile Stairs and Medical Lift
  - Group V Aircraft Remote Parking (received FAA approval 10/20/23)
  - Snow Equipment (received FAA approval 10/20/23)

PFC Project #	Project Name	Project Scope	Project Status	Project Cost*	Expenses To Date
10-01	Property Acquisition	This program will acquire four properties under the Runway Safety Area/Runway Protection Zone project.	Negotiations underway. Expected completion in FY 2026.	$1,643,000	$7,000
13-03	Residential Sound Mitigation Program	This project will reestablish the Homeowner Noise Assistance Program using the FAA approved 2016 Part 150 Update. The 188 properties identified within the 65 DNL contour are considered "potentially eligible" for the Residential Sound Mitigation Program and will create a multi-year program based on homeowner desires to participate in sound mitigation treatment or acquisition.	Project under construction. Expected completion in FY 2026.	$6,275,981 **Note: This is the 20% match to 80% Federal funding.*	$168,347
13-11	BWI Mobile Stairs and Medical Lift	This project replaces two mobile lounges with two stair trucks and a medical lift.	Receipt of equipment expected in FY 2024.	$1,185,380	$69,499
14-01	Group V Aircraft Remote Parking	This project will expand remote parking for Group V aircraft by repaving a portion of the existing parking lot by Concourse E.	Design underway.	$2,050,000	$40,188
14-02	Snow Equipment Replacement	This project replaces 26 pieces of snow removal equipment dating from 1999 to 2013.	Procurement underway.	$20,335,000	$0

**Cost Estimate includes design, program management, construction management, and construction.*

ITEM

5

MEMORANDUM

TO: Finance Committee
FROM: Allen W. Garman, Deputy Director of Finance
SUBJECT: Credit Ratings Update
DATE: January 11, 2024

PURPOSE OF MEMORANDUM

In accordance with the Board Operating Policy requirement, management will provide an update on recent rating agency affirmations of the MDTA's double-A credit ratings[1] with Stable outlooks. This memo formalizes the verbal notification made to the MDTA Board on December 21, 2023 of the December 20, 2023 Fitch rating affirmation and includes a copy of the report.

SUMMARY

In recent months, both Fitch and Moody's affirmed the MDTA's ratings with Stable outlooks at AA and Aa2, respectively. Within Moody's Toll Sector universe of more than 50 rated credits, the MDTA remains among the five highest rated agencies that are solely toll supported.

Key ratings drivers cited by Fitch and Moody's include the MDTA's:

1. Solid Debt Service Coverage (MDTA Board policy 2-times)
2. Strong Liquidity ($400 million unrestricted cash policy)
3. Critical Transportation Network
4. Prudent Capital Planning
5. Independent Rate Setting Authority
6. Conservative Debt Structure

During the annual ratings surveillance process, the MDTA provides detailed traffic and revenue forecasts, as well as operating and capital costs projections included in the six-year financial forecast. The credit ratings affirmations demonstrate confidence in the MDTA's financial strength, with foundations in board policies and the Trust Agreement legal covenants.

[1] Ratings categories below triple-A have three notches ranked from strongest to weakest within the category. For example, Moody's utilizes numerical modifiers to denote strength within the double-A category (Aa1, Aa2, Aa3), while S&P and Fitch utilize plus/minus modifiers (AA+, AA, AA-).

Credit ratings published by Nationally Recognized Statistical Rating Organizations (NRSROs) such as Fitch, Moody's, and S&P serve to inform exiting bond holders and prospective creditors through the assigned ratings level and written reports detailing an issuer's creditworthiness. From a return on investment perspective, the annual cost of maintaining a credit rating should be fully offset by lower financing costs at the time of each new issue.

ATTACHMENTS

Fitch Ratings Report

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

Maryland Transportation Authority (MD)	EU Endorsed, UK Endorsed

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