FITCH RATES MARYLAND TRANSPORTATION AUTH'S TRANSPORTATION FACILITIES PROJECT REVS AT 'AA-'

Fitch Ratings-San Francisco-30 June 2017: Fitch Ratings has assigned a 'AA-' rating to Maryland Transportation Authority's (MDTA or authority) approximately $164.3 million of transportation facilities project revenue refunding bonds series 2017. Fitch has also affirmed the 'AA-' rating on the authority's approximately $2.3 billion of outstanding transportation facilities project revenue bonds.

The Rating Outlook for all bonds is Positive.

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 ability. The rating is supported by robust financial metrics under Fitch's rating case scenario, with a high average debt service coverage ratio (DSCR) of 2.7x, and moderate projected leverage (net debt over cash flow) of nearly 5.0x.

The Positive Outlook reflects MDTA's continued positive traffic trends and financial flexibility including robust coverage performance relative to peers while near-term leverage is expected to migrate downward. However, uncertainty remains given the recent policy decision to reduce toll rates and MDTA's future borrowing needs. Positive rating movement will hinge on continued strong financial performance combined with near-term certainty on tolling policies and additional clarity on potential debt funding for the capital improvement program.

KEY RATING DRIVERS

Revenue - Volume: Stronger
Critical Transportation Network: MDTA revenues are derived from a diverse system of seven mature assets and the Inter County Connector (ICC) that provide critical transportation links in a high volume market with limited competing facilities. The systems legacy facility transactions have historically experienced low elasticity while numerous significant toll increases have been introduced.

Revenue - Price: Stronger
Demonstrated Toll Increases: The authority has a demonstrated ability to raise rates to maintain financial flexibility and meet internal policies. This ratemaking ability is supported by the facilities' affluent service areas comprising Baltimore and Washington D.C. metropolitan statistical areas. The recent toll cut in FY2016 may signify a fundamental policy shift that causes some uncertainty regarding future independent rate setting ability.

Infrastructure & Renewal: Stronger
Prudent Capital Planning: The authority's facilities are in overall satisfactory condition while the Nice Bridge is considered in fair condition anda replacement effort is in progress. The 2018 - 2023 capital program addresses system expansion, preservation and congestion relief. The program will be funded by system cash flow and additional debt.

Debt Structure: Stronger
Conservative Debt Structure: The authority operates according to a policy of maintaining debt service coverage ratio (DSCR) above 2.5x through 2020 (2.0x thereafter), unencumbered cash

above $350 million, and a statutory bond cap of $2.325 billion while rising to $3.0 billion after 2020.

Strong Financial Performance: MDTA has a demonstrated track record of producing solid DSCR and maintaining moderate leverage while retaining a high level of financial flexibility. Fitch's rating case DSCR averages 2.7x and remains significantly above the authority's target of 2.0x, while leverage averages nearly 5.0x.

PEER GROUP
Florida Turnpike (insert rating) and MDTA are characterized as essential facilities with strong catchments and limited direct competition. Both have considerable ongoing capital needs. Additionally, maximum annual debt service coverage for both facilities is comparable at close to or above 2.0x while Florida Turnpike has lower leverage below 2.5x.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Under-performance of traffic and revenue with further toll reductions or unwillingness to adjust tolls resulting in the inability to maintain financial metrics with coverage dropping below 2x.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--A clear direction of borrowing needs while maintaining robust debt service coverage above 2.25x with moderate leverage expectations could warrant upward movement of the rating.

TRANSACTION SUMMARY

MDTA intends to issue approximately $164.3 million in fixed-rate senior lien Transportation Facilities Projects Revenue Refunding Bonds series 2017 in July 2017. As part of the refinancing, MDTA anticipates contributing $100 million cash defeasance from authority reserves, along with the expected bond proceeds of $184.4 million, to refund roughly $284 million of existing series 2007 revenue bonds. The refunding is expected to bring an average annual debt service savings of $8.5 million. The proposed 2017 bonds rank pari passu with the outstanding revenue bonds and will be secured by a pledge of the authority's net revenues generated through facility operations. The bonds will also be secured by the parity DSRF established previously by the series 2010 and 2012 revenue bonds.

Performance Update

Fiscal year (FY) 2016 legacy traffic is up 2.9% while toll revenues were down 2%, primarily driven by the authority's decision to reduced toll rates for FY2016. The recent toll reduction primarily targeted the ICC, Chesapeake Bay Bridge, JFK Express Toll Lanes, and E-ZPass rates. Fiscal YTD 2017 (eleven months) traffic and revenue have also increased, rising 4.8% and 5.1%, respectively.

Total operating expenses grew 9.5% in fiscal 2016, mainly due to increases in pension expense, and to a lesser extent, toll collection and police patrol costs. Recent elevated cost increases have stemmed mainly from escalating salary and benefits costs. Financial metrics for 2016 were strong but decreased to 3.5x from 4.1x in 2015, due to a step up in debt service. Leverage continued to devolve down to 3.1x, but is expected to rise again in future years with anticipated debt issuances.

The 2018 - 2023 draft capital plan is substantial at approximately $2.5 billion in aggregate, largely focusing on asset expansion and preservation. The authority anticipates issuing an estimated $470 million in new debt between 2021 and 2025 to help fund capital projects. While some uncertainty exists concerning financing needs of the Nice Bridge replacement, Fitch will continue to monitor the situation.

Fitch Cases

Fitch's base case utilized sponsor-projected revenues, expenses, capital spending, and cash balances, and based FY2017 on 11 month year-to-date traffic and revenue performance. Traffic grows conservatively at 0.5% annually thereafter, and no future toll increases were assumed. Fitch also incorporated the proposed Series 2017 refunding bonds in its analysis, as well as the estimated $470 million in additional debt spread between 2021 and 2025. This produced healthy metrics with an average DSCR of 3.0x and average leverage of 3.7x over the next 10 years.

Fitch's rating case assumes a 4% traffic stress in 2018 followed by zero growth in 2019. Thereafter, traffic recovers at base case levels of 0.5% annually. Revenues were set to follow traffic growth rates, again with no toll rate increases, while O&M is stressed an additional 0.5% above base case growth. The proposed debt issuances were also incorporated. The resulted in an average DSCR of 2.7x, and an average leverage of 4.9x. Although metrics are slightly weakened compared to the base case, they are still relatively robust, reflecting MDTA's resilience to economic downturns and anticipated future leveraging.

SECURITY

The bonds, including the proposed series 2017, are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from 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.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

https://www.fitchratings.com/site/re/882594

Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016)

https://www.fitchratings.com/site/re/886038