Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa3 RATING TO MARYLAND TRANSPORTATION AUTHORITY'S TRANSPORTATION FACILITIES PROJECTS BONDS

Global Credit Research - 16 Nov 2009

AUTHORITY HAS $1.66 BILLION DEBT OBLIGATIONS

Toll Roads
MD

Moody's Rating

ISSUE		RATING
Transportation Facilities Revenue Bonds, Series 2009A		Aa3
Sale Amount	$148,875,000	
Expected Sale Date	11/19/09	
Rating Description	Revenue	
Transportation Facilities Revenue Bonds, Series 2009B		Aa3
Sale Amount	$383,115,000	
Expected Sale Date	11/19/09	
Rating Description	Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Nov 16, 2009 -- Moody's Investors Service has assigned an Aa3 rating to the Series 2009A and 2009B Transportation Facilities Projects Revenue Bonds of the Maryland Transportation Authority and affirmed the Aa3 bond rating on outstanding parity bonds. The outlook is stable.

LEGAL SECURITY: The bonds are secured by a pledge of net revenues from six of the authority's seven toll facilities. Revenues from the Intercounty Connector (ICC) project will become part of the revenue pledge once the project is completed in 2013. The bonds are also secured by a debt service reserve sized at the lesser of maximum debt service, 125% of average debt service or 10% of the principal amount of the bonds being issued. The authority's rate covenant requires net revenues to be at least 1.2 times annual debt service and 100% of the amount required to be deposited in the maintenance and operations reserve account. The additional bonds test requires the rate covenant to be met on a 5-year prospective basis.

The authority has a statutory debt limit of $3 billion.

USE OF PROCEEDS: The $560 million fixed rate Series 2009A (tax-exempt) and Series 2009 B (federally taxable, interest rate subsidy BABs) bonds are structured with 36 months of capitalized interest followed by 30-year level debt service. The 35% federal interest rate subsidy is not a defined revenue in the bond indenture and is being applied as an offset to annual debt service. Bond proceeds provide financing for various authority projects, including the ICC project which is under construction.

INTEREST RATE DERIVATIVES: None.

STRENGTHS

* Long history of strong demand for the authority's multiple, essential and established transportation facilities based on well developed and slowly growing service area

* Consistently high debt service coverage and related ample financial margins, though coverage will be reduced consistent with Aa rated toll facilities as new debt is added

* Strong liquidity levels representing more than one year of operating income, though balances will be reduced to a minimum $350 million as the large capital improvement program (CIP) is funded

* Demonstrated willingness and independent ability to raise tolls when needed, with minimal traffic impact; toll rates remain relatively low. Doubled commercial tolls effective Spring 2009 and planning 2 significant rate increases in 2012 and 2014

CHALLENGES

* The authority continues to implement a large CIP over the next five years, including the ICC project and expects to issue $1.8 billion in debt to fund the program. ICC and other CIP projects may be susceptible to cost increases beyond planned contingencies

* The authority's indenture allows for funds to flow out of the system, when authorized by the authority. Up until 2007 the authority had been making annual (fixed) payments to the Maryland Department of Transportation, but has not made payments since then

MARKET POSITION/COMPETITIVE STRATEGY: SYSTEM FACILITIES PROVIDE ESSENTIAL TRANSPORT LINKS IN STRONG, STABLE ECONOMY

The authority's Transportation Facilities Project Bonds are secured by the net revenues of six toll facilities with proven long term demand that are essential to the economy of Maryland and surrounding states. Tolled assets include the John F. Kennedy Memorial Highway (JFK), a 50-mile stretch of Interstate 95 between Baltimore and the Maryland-Delaware border; three bridges crossing the Potomac River, the Chesapeake Bay, and the Baltimore Harbor; and two tunnels connecting to I-95 and I-895. The authority also operates and collects tolls on the Hatem Bridge, which crosses the Susquehanna River but these revenues are not pledged to bondholders.

As part of I-95, the Fort McHenry Tunnel in Baltimore is the most-traveled segment of the system, accounting for 37% of transactions and 30% of toll revenues in FY 2009. The JFK Highway accounts for the largest share of toll revenues, accounting for 33% in FY 2009. Annual system-wide traffic growth over the last 5 years has averaged -0.3% while toll revenue growth has averaged -0.17%. Over a 10-year period the average growth rates were 6.7% and 7.2%, respectively. From 2008 to 2009 traffic declined by 2% and revenues declined by 1%. The base case traffic forecast shows a 2.9% decline in 2010, followed by a 0.5% gain in 2011. Due to toll rate and fee adjustments toll revenues are projected to increase by 6.4% in 2010 followed by a 0.4% increase in 2011. The five-year AAG from traffic is 0.74% and for revenues 4.6%, which includes the projected elasticity effects of a 48% toll increase in 2012 and a 23% increase in 2014. Moody's notes that annual growth forecasts could be worse than projected given the uncertain pace of economic recovery in the service area and the potential for rising gas prices.

FINANCIAL POSITION AND PERFORMANCE: SYSTEM ESSENTIALITY AND ONGOING STRONG FINANCIAL RESULTS SUPPORT HIGH RATING

The system enjoys the ample financial margins consistent with its high rating, though these margins will diminish as the CIP is implemented and debt service ramps up. Toll revenue growth has been aided by toll rate increases and fee adjustments since 2003. Toll revenue, approximately 52% collected electronically, was $276.6 million in 2009, a 1% decrease from 2008. Expenses had been growing at a faster pace than revenues over the last four fiscal years, in part due to a reclassification of certain capital costs and flat growth in vehicle miles traveled. Management has been monitoring expenditures and has effectively controlled expenditures in 2009 and 2010. Fiscal year 2009 revenues increased by $43 million due to doubling of commercial tolls and other fee adjustments. Effective July 2009 the authority made several changes in commuter toll plans and added various service fees, including a $1.50 monthly EZPass maintenance fee, a replacement cost for transponders as well as an increase in toll violations charges to $25 from $15 and a reduction in commuter plans to 45 from 60 days. The 2010 budget is based on an assumed 2.9% traffic decline and a projected 6.4% increase in revenues. Actual traffic through September is up 3% and revenues are up 16.2% compared to 2009. Year-to-date revenues are up $15 million while expenses up 1.2% The authority expects to implement congestion pricing by year-end, with the board scheduled to vote on final plan in December.

Annual debt service coverage has averaged a very high 4.72x over the past five years and 2.1x if annual transfers to the Maintenance and Operating (M&O) reserve account are included (these transfers are after debt service in the flow of funds). Coverage levels are projected to drop substantially as the authority implements its large CIP, however they are expected to stay above 2 times including planned debt issues totaling $1.83 billion. The authority's strong financial margins are also evidenced by its high margin after debt service, which measures free cash flow after payment of operating expenses and debt service as a percentage of gross revenues. Over the past five years, the margin after debt service has averaged 47.3%. At the close of FY 2008 the authority had 498 days cash on hand, which does not include construction funds or debt service reserves. Including construction funds the authority had 2,000 days cash on hand.

The authority is an independent agency, with independent rate-setting authority, however the Secretary of the State Department of Transportation (MDOT) also serves as Chairman of the authority's 8 member board. The two agencies work together to address state-wide transportation needs and this high level of coordination benefits the authority as it undertakes capital projects. Until 2007 the authority had made annual payments of $43 million to MDOT for mass transit projects, which it is permitted to do per its bond indenture. Moody's notes that the authority does not currently plan to reinstate the transfers given the large amount of cash flow need to complete the ICC and system-wide capital projects out of the system for other purposes, at this time.

CAPITAL PROGRAM: LARGE CAPITAL PROGRAM RELIES ON SUBSTANTIAL DEBT FINANCING AND CONSISTENT TRAFFIC AND REVENUE GROWTH

The authority will be issuing debt on a regular basis for its $3.5 billion 2010-2015 capital improvement program (CIP), with approximately $1.6 billion allocated for the largest project the ICC. The ICC is a new 18-mile, tolled, limited access facility outside of Washington, DC, connecting I-270 in Gaithersburg to I-95 south of Laurel and linking Montgomery (rated Aaa) and Prince George's (rated Aa1) counties. MDOT is managing the construction of this $2.57 billion toll road ($1.2 billion funded by authority bonds and cash), which is slated for completion and full revenue operation in 2013. The ICC project is on schedule and within the budget established in 2008, with first leg to open Fall 2010. All major construction contracts have been awarded; phased completion 2010, 2011, 2012 and 2013. The 2010-2015 CIP also includes approximately $1.9 million for system-wide upgrade and preservation projects for existing facilities. Total new money issuance through 2015 is expected to be $1.83 billion with the balance of the funding supplied by authority cash ($1.4 billion) and federal and state grants ($242 million). The authority expects to draw on a committed $516 million TIFIA loan in FY 2011.

As a result of the large capital program, annual debt service increases from $24.4 million in 2008 to $94 in 2012, peaking at $189 million in 2018, and then leveling off. Based on reasonably conservative traffic projections, which are consistent with long term historical traffic trends, we expect the authority will be able to meet its debt servicing obligations while maintaining 2 times debt service coverage and a strong financial profile consistent with its high rating. Key to the forecast are assumed toll rate increases of 48% in 2012 and 23% in 2014. Consultants to the authority have developed a base case financing scenario as well as several sensitivity analyses. Under the base case, the authority is projected to have debt service coverage at or slightly above 2 times, as well as a minimum of $350 million in available cash reserves. In certain severe stress scenarios, which include no traffic growth on the existing system, slower than forecast ramp-up of the ICC project as well as $600 million of increased capital costs, coverage declines to around 1.5x in 2017, and larger than projected toll increases may be needed when compared to the base case.

The Final Environmental Impact Statement (FEIS) for the ICC was issued on January 3, 2006 and a favorable Record of Decision (ROD) was approved by the Federal Highway Administration (FHWA) on May 29, 2006. The 2006 initial finance plan for the project was approved by FHWA on June 29, 2006. Through October 2009 the project is on schedule and budget.

Outlook

The outlook is stable based on our expectation that the authority will be able to maintain its strong financial profile as it implements its large CIP, will continue to raise tolls, as needed, to support its increasing debt service obligations and that the CIP will be completed within the expected budget.

What Could Change the Rating - UP

Significant and sustained higher-than-projected traffic levels and toll revenues that increase debt service coverage margins could put upward pressure on the rating.

What Could Change the Rating - DOWN

Downward pressure on the rating could arise from declines in traffic and revenue levels that are more severe that levels assumed in the authority's base case financial projections. Similarly significant increases in the CIP cost or failure to execute toll increases as planned in 2012 and 2014 would place downward pressure on the rating. Debt service coverages below 1.7 times would not be consistent with the current rating.

KEY INDICATORS:

Key Data/Indicators

Facility Type: Established, multi-asset, state-wide combined bridge and highway system

Toll Transactions, FYs 2008-2009: 0.17%

Toll Revenues, FYs 2008-2009:

FY 2008:

Margin after debt service: 40.9%

Debt Service Coverage: 4.37x

Debt per Roadway Mile: $13,186

Debt per Transaction: $8.18

O&M Expense per Roadway Mile: $ 2,928

Days Cash on Hand: 498

5-YR AAG Total Toll Revenue (%): -0.17%%

5-YR AAG Passenger Transactions (%): -0.3%

Days Cash on Hand: 498

10-YR AAG Total Toll Revenue (%): 7.2%%

10-YR AAG Passenger Transactions (%): 6.7%

Debt Outstanding:

Transportation Facilities Project Revenue Bonds,

Series 1992, $74.5 million

Series 2004, $159 million

Series 2007, $300 million

Series 2008, $573 million

Series 2009, $560 million

CONTACTS

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The last rating action on the authority was on February 29, 2008, when the Aa3 rating was assigned to the Series 2008 and the outstanding Aa3 rating was affirmed.

The principal methodology used in rating the authority's bonds was "State and Local Government Owned Toll Facilities in the United States," which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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