FitchRatings

RATING ACTION COMMENTARY

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

Thu 30 Apr, 2020 - 3:25 PM ET

Fitch Ratings - New York - 30 Apr 2020: Fitch Ratings has affirmed the 'AA' rating on Maryland Transportation Authority's (MDTA) outstanding $1.5 billion in transportation facilities project revenue bonds. The Rating Outlook is Stable.

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 ability. Although the authority has experienced significant traffic declines resulting from the coronavirus pandemic, the declines are in line with other facilities in Fitch's rated portfolio. The rating is supported by robust financial metrics; under Fitch's rating case scenario, which incorporates coronavirus-related stresses, the 10-year average debt service coverage ratio (DSCR) is high at 2.5x, and projected leverage (net debt over cash flow) is moderate at 5.3x in 2024. MDTA's substantial liquidity position, with over 650 days cash on hand (DCOH) as of fiscal year-end 2019, provides additional support to the current rating.

KEY RATING DRIVERS

Critical Transportation Network - Revenue Risk (Volume): Stronger

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 system's legacy facility transactions have historically experienced low elasticity while numerous significant toll increases have been introduced. As a result of the coronavirus shutdowns commencing in March, MDTA has experienced yoy traffic declines of roughly 55%. It is likely that this trend will continue as government restrictions are maintained.

Demonstrated Toll Increases - Revenue Risk (Price): Stronger

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. There are no current plans for any toll adjustments and management estimates that the system could sustain a 12-month 40% decline in toll revenues without violating the rate covenant.

Prudent Capital Planning - Infrastructure Development & Renewal: Stronger

The authority's facilities are in overall good condition. The $3.2 billion 2020-2025 capital program focuses on preservation and also addresses system expansion and congestion relief. The program is nearly two-thirds funded as pay-go, with the remaining one-third funded with $1.3 billion in future debt issuances. The replacement of the Nice bridge with a larger four-lane bridge is included in the capital plan; the project's total cost is estimated at $636 million.

Conservative Debt Structure - Debt Structure: Stronger

The authority operates according to a policy of maintaining a DSCR above 2.0x, unencumbered cash above $350 million, and a statutory bond cap of $2.325 billion rising to $3.0 billion after 2020. The replacement in 2019 of the $81 million in cash-funded debt service reserves with surety policies is somewhat mitigated by the authority's strong cash position with an estimated 656 days of unrestricted cash on hand as of fiscal year-end 2019, though balances are expected to diminish as the authority executes its capital program.

Financial Summary

MDTA has a demonstrated track record of producing solid debt service coverage and maintaining moderate leverage while retaining a high level of financial flexibility. Fiscal 2019 coverage was 4.3x and leverage was 2.3x. With the inclusion of coronavirus-related stresses, Fitch's ten-year rating case DSCR averages 2.5x, while leverage increases to 6.6x by 2029 as the authority is assumed to continue to issue debt annually without increasing tolls. However, the authority has historically projected new debt issuances conservatively. The metrics do not include revenue from the Hatem Bridge, a General Account project, which generated approximately $12 million in toll revenues in fiscal 2019.

PEER GROUP

Florida Turnpike Enterprise (FTE; AA/Stable Outlook) and Pennsylvania Turnpike Commission (PTC; A+/Stable Outlook senior and A-/Negative Outlook subordinate), like MDTA are essential facilities with strong catchments and limited direct competition. All three have considerable ongoing capital needs. The average rating case debt service coverage ratios for MDTA and FTE are comparable, but MDTA's leverage exceeds FTE's as additional debt is issued through 2028. PTC's higher debt burden than both MDTA and FTE results in higher leverage on both liens, explaining PTC's lower ratings.

RATING SENSITIVITIES

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.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Under-performance of traffic and revenue with further toll reductions or unwillingness to adjust tolls with coverage dropping to at or near the 2.0x debt service coverage policy.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT UPDATE

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for toll roads in the near term. While MDTA's performance through the most recently available issuer data may not have indicated impairment, material changes in revenue and cost profile are occurring across the toll roads sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

MDTA has experienced yoy traffic declines of roughly 55% as a result of the coronavirus shutdowns commencing in March. However, the authority's substantial liquidity position of over $440 million in unrestricted cash as of March 2020 provides cushion and is sufficient to fund the entire fiscal 2020 operating budget and debt service.

In fiscal 2019, legacy facility traffic decreased by 2.0%, while toll revenue increased 0.8% from fiscal 2018. The decline was driven by construction on I-895 and the Baltimore Harbor Tunnel. ICC and I-95 Express Lanes (ETL) traffic grew 5.5% and 5.1% respectively, resulting in approximately flat system-wide traffic. Total operating expenses paid from pledged revenue grew 6.2% in fiscal 2019, largely due to increases in collection, police patrol and maintenance expenses.

FINANCIAL ANALYSIS

Fitch's base case incorporates coronavirus related declines in both passenger and commercial traffic in 2020 (-27.8% and -13.9%, respectively), followed by recovery to 95% of 2019 toll revenues in 2021. Thereafter, revenues grow at a CAGR of 1.1% through 2029. Operating expenses decline by 5.7% in 2020, increasing by 7.7% in 2021, reflecting the projected traffic decline and recovery. Thereafter, they are assumed to grow by 4% annually. Fitch also incorporated the expected $1.9 billion in additional debt from fiscal 2020 through 2030. The authority maintains strong metrics with an average ten-year DSCR of 2.6x and year-five leverage of 5.1x in 2024.

Fitch's rating case assumes the same coronavirus-related declines and recovery as the base case, followed by toll revenue growth of 1% annually and operating expense growth of 4.5% annually. Under these assumptions, DSCR averages 2.5x from 2020-2029, with year-five leverage of 5.3x. Fitch also ran a coronavirus stress case, in which greater declines were projected in 2020 (-34.4% for passenger toll revenues and -17.2% for commercial toll revenues), followed by recovery to 90% of 2019 revenues in 2021. Expenses varied in line with the assumed decline and recovery. Under these assumptions, the ten-year DSCR average was 2.4x.

SECURITY

The bonds are primarily secured by 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, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Maryland Transportation Authority (MD)			
• Maryland Transportation Authority (MD) /Transportation Revenues/1 LT	LT	AA	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 24 Mar 2020) (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, v1.1.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Maryland Transportation Authority (MD)	EU Endorsed

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