



## Fitch Affirms Maryland Transportation Auth's Transportation Facil Proj Revs at 'AA-'; Outlook Stable [Ratings](#)

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Fitch Ratings-New York-03 October 2012: Fitch Ratings affirms Maryland Transportation Authority's (MdTA) approximately \$2.3 billion of outstanding transportation facilities project revenue bonds at 'AA-'. The Rating Outlook is Stable.

### KEY RATING DRIVERS:

**CRITICAL TRANSPORTATION NETWORK:** MdTA revenues are derived from a diverse system of six mature assets and the Intercounty Connector (ICC) that provide critical transportation links in a high volume market with limited competing facilities. The system generates 65% of revenues from passenger cars.

**DEMONSTRATED RATE MAKING FLEXIBILITY:** The authority has historically demonstrated strong ability to raise rates to maintain robust financial performance and to meet internal policies (maintaining coverage above 2.0 times [x], unencumbered cash above \$350 million). In addition, low toll rates and the affluent metropolitan statistical area (MSA) of Baltimore and Washington D.C. provide a high level of economic rate-making ability.

**STRONG FINANCIAL PERFORMANCE:** MdTA has a demonstrated track record of producing solid debt service coverage ratios (DSCRs) projected at approximately 2.8x in fiscal 2012 and retains a high level of financial flexibility due to a strong cash position with approximately \$494.2 million of unencumbered cash, equivalent to approximately 846 days cash on hand as of fiscal 2012. Leverage is considered moderate with net debt to cash flow available for debt service (CFADS) of 9.3x, however, it is projected to evolve downward closer to 5x as planned toll increases are implemented.

**CONSERVATIVE DEBT STRUCTURE:** MdTA's debt is 100% fixed rate maturing in 2047.

**PRUDENT CAPITAL PLANNING:** The authority's facilities are in good condition. The \$2.2 billion 2012 - 2017 capital program balances system preservation and addresses congestion relief and service enhancements. The program is funded by solid balance between debt funding and pay-go.

### WHAT CAN TRIGGER A RATING ACTION:

--Increased leverage or DSCRs that fall below 1.8x-2.0x as result of under-performance of traffic and revenue, unmanageable expense growth, or growing deferral of life cycle preservation costs.

### SECURITY:

The bonds are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from a diverse system of seven toll facilities, including I-95 between Baltimore and the Maryland-Delaware state line; three bridges which cross the Chesapeake Bay near Annapolis, the Potomac River connecting Southern Maryland with Virginia and the Baltimore harbor; two tunnels on I-95 and I-895 which both cross Baltimore harbor and the ICC has been contributing since operations began in February 2011.

### CREDIT UPDATE:

In fiscal 2012, base traffic was relatively flat at 117.5 million (down 0.18%) while toll revenues grew significantly as result of a planned toll increase to \$373 million (up 19.6%). Both traffic and revenue levels for fiscal 2012 exceeded traffic consultant expectations. MdTA's approved toll increases have established a higher degree of certainty that the authority will be able to meet short-term obligations while preserving financial margins. The third of the 3-phase toll increases will be implemented on July 1, 2013. Overall the phased toll increases included a number of changes including significantly higher toll rates, a reduction in the magnitude of certain discounts, changes to video tolling fees, and establishment of a 10% E-Z Pass discount from base cash tolls. Overall the average toll is expected to increase to \$5.36 in 2014 from \$2.63 based on the traffic consultant report.

Fitch's base case is similar to the traffic consultant projections which takes into consideration the approved toll increase along with conservative elasticity assumptions. As a result, the base case shows traffic decreasing to 105.3 million by fiscal year (FY) 2014 from 117.5 million in FY2012, approximately 10.5% lower than current levels. Under Fitch's Rating Case, which includes moderate traffic recovery, reasonable expense growth, and the approved toll rate increases, Fitch expects debt service coverage levels to remain above 1.8x in the medium term including the currently planned debt issuances under the 2012-2016 capital program.

Construction of the ICC is making significant progress. The 17.5 mile long ICC project consists of three design build fixed price contracts and one low-bid contract and is estimated to cost \$2.5 billion. Contract A and the combined contract B and C are now complete and open to traffic. Thus far traffic on the ICC is ahead of projections with fiscal 2012 traffic of 11.6 million compared with projections of 11.2 million. Contracts for the combined D and E are expected to be completed in June 2014.

MdTA was established by the Maryland General Assembly in 1971 and is responsible for the construction, operation, maintenance and repair of certain revenue-producing transportation facilities projects. The transportation facilities projects consist of the Potomac River Bridge, the Chesapeake Bay Bridge, the Baltimore Harbor Tunnel, the Baltimore Harbor Outer Bridge, the Ft. McHenry Tunnel, the Intercounty Connector and the John F. Kennedy Memorial Highway.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance', July 12, 2012;

--'Rating Criteria for Toll Roads, Bridges, and Tunnels', Aug. 2, 2012.

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