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Fitch Rates Maryland Transportation Authority's Ser 2010 A&B 'AA-' Ratings

06 Jul 2010 4:44 PM (EDT)

Fitch Ratings-New York-06 July 2010: Fitch Ratings assigns an 'AA-' rating to the Maryland Transportation Authority's (MdTA) $300 million series 2010 A and B Transportation Facilities Projects revenue bonds. The 2010 A series will be tax-exempt while the 2010 B series will be issued as Build America Bonds (BABs). The actual par amounts of the two series will be determined on the day of pricing during the week of July 12, 2010 depending on market conditions. Fitch also affirms the 'AA-' rating on the MdTA's outstanding series 1992, 2004, 2007, 2008, and 2009 transportation facilities projects revenue bonds. The Rating Outlook on all series of bonds is Stable.

The bonds are primarily secured by the net revenues of the transportation facilities projects. Pledged revenues are derived from a diverse system of six 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; and two tunnels on I-95 and I-895 which both cross Baltimore harbor. In addition, the Intercounty Connector (ICC) is also a part of this system and is expected to start contributing once it is operational in late 2010 or early 2011.

The 'AA-' rating reflects a net revenue pledge derived from a diverse system of six mature assets that provide critical transportation links in a high volume market, a high level of economic rate-making ability and demonstrated commitment to strong financial performance with debt service coverage above 2.0 times (x), a robust liquidity position and demonstrated toll rate increases to fund increasing expenses and debt service obligations. The rating also reflects a moderate debt burden, with external funding support from the state of Maryland for a portion of the Intercounty Connector project (ICC) and a cooperative relationship with MDOT on managing the authority's support for other state transportation projects.

Credit concerns center on the MdTA's dependence on sustained toll increases over the next 10 years to cover growing annual debt service obligations associated with the ICC, the authority's significant commuter discount program, which significantly limits the impact of toll increases, and the authority's ability to control operating expense growth and provide adequate resources for life-cycle preservation needs of the MdTA's revenue producing assets, several of which may be nearing the end of their useful life.

Going forward the authority is dependent to some degree on continued revenue growth on the base system, which could be exacerbated if ICC traffic and revenue performance falls short of projections. The ICC is expected to open in phases, beginning in late 2010 or early 2011 and by 2014 is expected to comprise 10% of total toll revenue. In total, the MdTA operates seven facilities, several of which are expected to need significant rehabilitation over the near-to-medium term. In addition, operating expenses have grown at a high rate, in part due to the ICC and JFK construction efforts. Should the authority defer, or implement toll increases below what is needed to preserve current financial margins or expense growth erode debt service coverage ratios (DSCR), negative rating pressure is likely. Fitch notes that as the authority embarked on the current capital plan rates were increased in advance to generate cash for the paygo component of the program and maintain financial performance and annual DSCRs at 2.0x and Fitch expects this approach to continue.

The MdTA's traffic demand and financial performance are its key credit strengths. Traffic demand, which includes a combination of interstate, urban commuter and recreational travel, is steady and relatively inelastic. Year to date, fiscal 2010 traffic is generally flat, down roughly 0.3%, despite severe weather in February and revenue is up 12% given revenue enhancements adopted in May of 2009. From 2002-2007, toll transactions grew minimally at 0.6%. Despite poor economic conditions toll transactions declined by 0.5% and 2% in 2008 and 2009, respectively. Reflecting the toll increase in 2004, toll revenues grew over 27.5% to $251 million from $197 million, but have generally remained flat since the toll increase. Fitch expects toll transactions will remain flat or slightly decline in 2010 but revenue is expected to increase given the recent increases to multi-axle vehicles and the modification of various fees.

Debt service coverage equaled 4.37x and 4.29x in fiscal years 2008 and 2009, respectively, and fiscal 2010 is projected to come in at 3.7x. Since fiscal 2002, debt service coverage has been at least 4.29x, but this is expected to drop to approximately 2x in future and potentially lower, should traffic declines continue and/or expenses erode margins. Fitch expects the MdTA will need to raise toll rates in 2012 commensurate with increased annual principal and interest payments. In Fitch's opinion, annual toll increases of at least 2% beginning in 2017 will likely be needed to maintain debt service coverage above 2.0x.

MdTA's $2.6 billion fiscal years 2011-2016 capital program includes over $1 billion to close out the ICC and nearly $71.8

million for major work on the Nice and Hatem bridges. MdTA expects to finance its capital program by issuing a total of $1.2 billion in bonds and TIFIA loans. The balance of funding would be derived from state and federal cash contributions and authority pay-as-you go funding. Since the ICC is expected to represent no more than 10% of total revenues by fiscal 2015, the existing toll facilities are likely to cross subsidize the ICC's debt service needs for an extended period.

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.

The application of the following criteria was used to derive the rating of the above referenced bonds:

--'Rating Criteria for Infrastructure and Project Finance', dated Sept. 29, 2009;
--'Global Toll Road Rating Guidelines' dated March 6, 2007.

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