

FitchRatings

FITCH RATES MARYLAND TRANSPORTATION AUTHORITY'S TRANS FACILITIES PROJECT REV REFUNDING BONDS 'AA-'

Fitch Ratings-New York-03 February 2012: Fitch Ratings assigns an 'AA-' to Maryland Transportation Authority's (MdTA) approximately \$67 million transportation facilities projects revenue refunding bonds, series 2012. Additionally, Fitch affirms the 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 affluent metropolitan statistical area (MSA) of Baltimore and Washington D.C. also provide the authority with a high level of economic rate-making ability.

--DEMONSTRATED TOLL INCREASES: The authority has historically demonstrated strong ability to raise rates to maintain strong financial performance and to meet internal policies (maintaining coverage above 2.0 times [x], unencumbered cash above \$350 million, and a statutory bond cap of \$3 billion).

--STRONG FINANCIAL PERFORMANCE: MdTA has a demonstrated track record of producing solid debt service coverage ratios and retains a high level of financial flexibility.

--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

--Under-performance of traffic and revenue, future toll rate increases that do not preserve financial margins, unmanageable expense growth, and growing deferral of life cycle preservation cost would pressure financial profile.

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 2011, base traffic grew by 2.6% to 119.4 million and toll revenues increased by 1.6% to \$308 million, respectively, exceeding the traffic consultant expectations. New toll rates were implemented on Nov. 1, 2011 and traffic impacts were minimal. Traffic declined only 0.26% in November and grew 1.29% in December over the prior year while revenues increased 25.3% and 27.4% for November and December, respectively, further supporting Fitch's opinion related to the authority's strategic transportation network and strong rate-making ability. Actual traffic for the portion of the ICC which was opened to the public in February 2011 is generally tracking to levels projected by traffic consultants.

Phase 2 of the approved three-phase toll increase which impacted certain truck classes took effect on Jan. 1, 2012 and phase 3 of the planned increase is scheduled for July 1, 2013. The recently implemented and near-term scheduled increases establish a higher degree of certainty that the authority will be able to meet short-term obligations while preserving financial margins. The toll increases include a number of changes including significantly higher toll rates, a reduction in the number of certain discounts, changes to ridesharing fees, and establishment of a 10% E-Z Pass

discount from base cash tolls for Maryland E-ZPass account holders. Overall, the average toll is expected to increase to \$5.08 in 2014 from \$2.63 based on the traffic consultant report.

For fiscal year (FY) 2011, debt service coverage was robust at 5.0x. However, Fitch expects coverage to fall to approximately 2.4x by the end of the six-year capital program in 2017; a level still consistent with the current rating. The authority has a strong cash position with \$492.5 million of unrestricted cash, equivalent to 1088 days cash on hand. The authority is also leveraged at 9.3x net debt to cash flow available for debt service (CFADS) which is expected to decline to a lower level when approved toll increases are implemented and has a debt per lane mile of \$4.2 million.

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 FY2014 from 117.6 million in FY2011, 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 2012-2017 capital program.

Construction of the ICC is also making significant progress. The 17.5 mile long ICC project consists of four design build fixed-price contracts and is estimated to cost \$2.4 billion. Contract A is complete and a five mile portion of the connector opened to traffic in February 2011. Revenues between commencement and fiscal year end totaled \$1.43 million, in line with the traffic consultant projections. Contract B and C is expected to begin operations opened in November 2011. Bids for final combined contract D and E have been received and is scheduled for completion 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.

--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2011);

--'Rating Criteria for Toll Roads, Bridges, and Tunnels' (Aug. 5, 2011).

Applicable Criteria and Related Research:

Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648832

Rating Criteria for Toll Roads, Bridges, and Tunnels

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=646421

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