Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 rating to the Maryland Transportation Authority's revenue refunding bonds, Series 2017

Global Credit Research - 30 Jun 2017

New York, June 30, 2017 -- Issue: Transportation Facilities Projects Revenue Refunding Bonds, Series 2017 (Tax-Exempt Bonds); Rating: Aa3; Rating Type: Underlying LT; Sale Amount: $164,295,000; Expected Sale Date: 07/12/2017; Rating Description: Revenue: Government Enterprise;

Summary Rating Rationale

Moody's Investors Service assigns a Aa3 rating to approximately $164.3 million of the Maryland Transportation Authority's Transportation Facilities Projects Revenue Refunding Bonds, Series 2017 (Tax-Exempt Bonds), outlook remains positive. Net present value savings from the refunding are estimated to be around 15.1%, with average annual debt service savings of approximately $8.7 million over the life of the bonds. The Series 2017 Bonds are secured by the pledge of net revenues from seven of the authority's eight facilities. The bonds are also secured by the Parity Debt Service Reserve Fund established in conjunction with revenue bonds Series 2010/2012 of the authority sized at the lesser of maximum annual debt service, 125% of the average debt service, and 10% of the principal amount of the bonds being issued. The authority's rate covenant requires net revenues to be at least the sum of 1.2x annual debt service and 100% of the amount required to be deposited in the maintenance and operations reserve account. The additional bond test requires the rate covenant to be met on a 5-year prospective basis.The Aa3 is based on the essentiality of the authority's road network; the fundamental strength of the service area, strong historical and projected debt service coverage ratios (DSCRs), demonstrated ability and willingness to raise tolls to support capital projects, and conservative financial practices and capital program management. The rating also considers better than expected elasticity of traffic demand to implemented toll increases which have produced traffic and revenue levels above projections. The rate increases from FY 2012-2014 continue to allow the maintenance of strong financial metrics despite increased debt service levels, and the toll rate reduction in FY 2016. The rating incorporates the successful completion of significant capital projects, increased revenues derived from the new facilities and prior toll increases and current adequate liquidity.The rating takes in consideration the toll rate reductions and discounts which took effect in July of 2015, although they only offset a fraction of a 37% toll rate increase that took effect in July 2013. These reductions signified the state's departure from non-intervention in toll rate setting and we considered it to be credit negative. The rating also incorporates the aging nature of some of the assets leading to high cost of maintenance and replacement, lower projected liquidity levels due to pay-go capital improvement projects and little current additional debt capacity.

Rating Outlook

The positive outlook reflects expectations of continued positive traffic and revenue growth based on traffic results year to date, minimal remaining ramp-up risk on new facilities, maintenance of strong financial metrics above 3.0 times and no further reductions in toll rates. The outlook also incorporates the uncertainty about the effects of changes in healthcare policy and military funding in the service region.

Factors that Could Lead to an Upgrade

Continued and sustained traffic and revenue growth

Toll revenues that support DSCRs above 3.0 times while maintaining adequate levels of liquidity

Factors that Could Lead to a Downgrade

Lower traffic and revenue levels than assumed in the authority's base case forecast

Significantly higher debt financing of the capital improvement plan (CIP)

A sustained decline in the DSCR below the targeted 2.0x due to toll rate decreases combined with other unfavorable developments

Legal Security

Bonds are secured by a pledge of net revenues from seven of the authority's eight toll facilities. The bonds are also secured by a cash-funded 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 the sum of 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 had a statutory debt limit of $3 billion.In 2015, legislature was passed that increased the Authority's debt service coverage requirement from 2.0x to 2.5x, temporarily reduced a statutory ceiling for toll-revenue backed debt to $2.325 billion from $3 billion until 2020, and established minimum annual operating and capital budgets of $275 million each year through FY 2020. Debt outstanding as of FYE2016 was $2.299 billion.The published rating assigned is two notches lower than the grid indicated rating as the published rating incorporates on a prospective basis, the view that liquidity will decline as a result of cash-funded capital projects, as well as the uncertainty related to toll policy changes and policy changes from the new federal government administration (healthcare, trade, military spending) and potential economic impacts to the region.

Use of Proceeds

The Series 2017 revenue refunding bond proceeds, together with a cash contribution of around $100 million as well as other contributions, will be used to refund all of the outstanding maturities of Series 2007 bonds, fund the debt service reserve subaccount and pay issuance costs.

Obligor Profile

The authority is an independent agency with autonomous rate-setting authority, however the secretary of the state department of transportation, MDOT, also serves as chairman of the authority's 8-member board who are appointed by the governor (and confirmed by the Senate). 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. From 2002 up until 2007 the authority made annual payments of $43 million to MDOT for mass transit projects, which it is permitted to do per its bond indenture. The authority has no plans to reinstate the transfers at this time.The authority owns and operates 8 facilities, of which revenues from 7, are deemed Transportation Facilities Projects, and the revenues are pledged to the bonds: the John F. Kennedy Memorial Highway; the Fort McHenry Tunnel; the Baltimore Harbor Tunnel; the Francis Scott Key Bridge (formerly the Baltimore Harbor Outer Bridge); the Governor Harry W. Nice Memorial Bridge (formerly the Potomac River Bridge); the Chesapeake Bay Bridge; and the ICC. The last facility is the Thomas J. Hatem Memorial Bridge (formerly the Susquehanna River Bridge), which the authority operates as a General Account Project.

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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