FITCH AFFIRMS MAINE TURNPIKE AUTHORITY REV BONDS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-07 July 2016: Fitch Ratings has affirmed the 'AA-' rating on approximately $369.8 million in outstanding Maine Turnpike Authority (MTA or the authority) revenue bonds and the 'A-' rating on the authority's approximately $34.4 million in outstanding special obligation bonds.

KEY RATING DRIVERS
The ratings reflect the authority's robust financial profile which is underpinned by a mature and stable traffic base. The ratings are further supported by the MTA's strong rate-making ability, manageable capital plan and conservative debt structure. An additional $410 million in future debt expected to be raised over the next 20 years is not expected to be detrimental to the authority's financial metrics given robust financial margins coupled with planned future toll increases to help fund future capital plan requirements. Fitch expects that coverage will remain in-line with the assigned rating levels, with respective 10-year average senior and all-liens coverages of 2.82x and 1.59x in Fitch's rating case. The special obligation bonds' rating also reflects the deeply subordinated status of the bonds and weaker security package.

Revenue Risk- Volume: Midrange
Mature Traffic, Exposure to Leisure: The Maine Turnpike is a mature asset and serves as the primary travel corridor through the southern portion of Maine. It provides access to the coastal areas, resulting in relatively high exposure to discretionary traffic, while serving as an essential artery for commercial vehicles. Traffic has historically remained stable even through the most recent economic downturn, demonstrating low elasticity to toll increases with the most recent toll increase implemented in November 2012. In Fitch's view, the current toll rate of 6 cents per mile for passenger vehicles is low, supporting MTA's strong economic rate-making flexibility.

Revenue Risk- Price: Stronger
Demonstrated Rate-Making Ability: The authority benefits from unlimited legal authority to change toll rates as needed. Historically, management has demonstrated a willingness to increase revenues through periodic toll rate increases to ensure the funding of capital needs and to maintain financial flexibility. Toll rates are expected to be raised in the future as necessary, though the turnpike's current robust financial profile will likely not require such an increase until 2031.

Infrastructure Development/Renewal: Stronger
Manageable Capital Program: MTA's approximately $1.9 billion 25-year capital program is manageable, mostly addressing maintenance needs and marginal improvements as the turnpike is not currently facing material capacity constraints. Management potentially plans to issue debt in small increments every 3-5 years to assist with the funding of its capital plan. Fitch does not expect these possible issuances to be onerous given the strength of MTA's financial profile and the vast majority (87%) of capital needs being cash-funded.

Debt Structure: Senior - Stronger, Special Obligation - Midrange
Sound Debt Structure: MTA's debt is all fixed-rate and fully amortizing with a declining debt service profile. The senior bonds are further supported by a $16.8 million cash-funded debt service reserve fund, while there is no dedicated debt service reserve supporting the special obligation bonds. On the special obligation lien, a weak sum-sufficient covenant and additional bonds test (ABT), coupled with structural subordination provide for weaker bondholder protection.

Financial Metrics:
Robust Coverage, Low Leverage: MTA's financial position is healthy, featuring high debt service coverage ratios (DSCR) and modest debt levels, which are expected to provide the authority with financial flexibility through periods of economic downturn or unforeseen cost increases. Fiscal year (FY) 2015 (year ended December 31.) coverage was 3.05x for the senior lien and 1.70x for all liens. Current leverage levels on a net debt-to-cash flow available for debt service (CFADS) basis are deemed modest, at 3.55x for the senior lien and 6.28x for all liens. Coverage levels are expected to remain at approximately 2.82x senior and 1.59x for all liens, while leverage is expected to decline to 3.40x senior and 6.02x all-liens in Fitch's rating case when incorporating potential future issuances.

Peer Analysis: New Hampshire Turnpike System ('A+'/Outlook Stable) and Metropolitan Highway System-Western Turnpike (MassDOT) ('AA-'/Outlook Stable) are among Maine Turnpike's closest peers, each operating strong turnpike systems comprising both urban and rural segments. Western Turnpike and Maine Turnpike feature higher DSCRs than New Hampshire, reflective of their higher rating level.

RATING SENSITIVITIES
Negative - Weaker Debt Service Coverage Profile: Sustained underperformance of traffic, revenue or maintenance of expenses, leading to deterioration of MTA's debt service coverage profile below 2.0x for the senior lien and 1.4x for all liens.

Positive - Volume Risk Constrains Rating: While the near-term financial profile is robust, given peers at 'AA' with stronger volume risk profiles, positive rating movement is unlikely in the near term.

CREDIT UPDATE

Fiscal 2015 was an all-time traffic and revenue record for the MTA, with both traffic and financial figures well surpassing Fitch's base case estimates due to favorable economic conditions. Specifically, traffic grew by 5.3% compared with an expectation of 2%, while toll revenues increased by 3.7% compared with an expectation of 1%. Year-to-date figures through May confirm performance has continued on an upward trajectory, with total traffic up 7.4% and revenue up to a lesser extent at 6.4% over the same period, reflecting the turnpike's low toll rates and discount programs in place. Commercial traffic represented approximately 9% of total traffic and 30% of total toll revenues in FY2015. Favorably, the authority continues to conservatively manage expenses, with operating expenses falling 0.6% in FY2015 due to lower collection salaries and less overtime paid to the state police troop. Positive revenue and expense performance contributed to improvement in fiscal 2015's DSCRs, at 3.05x senior and 1.70x for all liens, in comparison to 2.57x senior and 1.63x for all liens during fiscal 2014.

The MTA's updated $1.9 billion 25-year capital plan has remained essentially unchanged, with $285 million in additional works due to the turnpike pushing forward its widening-lanes project as a result of higher than expected 2015 traffic volumes. Fitch regards the capital program as manageable, focusing mostly on maintenance and marginal improvements such as rehabilitation and repaving of roads and bridges. The authority plans to periodically issue debt to assist with the funding of its capital plan, though Fitch does not consider the potential additional debt a concern given the strength of the MTA's financial profile and minimal nominal amounts of debt expected to be issued. Additionally, Fitch views the mostly cash-funded nature of the capital plan as a credit positive, with nearly 90% of capital needs expected to be funded via operating cash flow or other internal liquidity.

Management's 25-year financial forecast through fiscal 2041 assumes 1.2%-1.3% toll revenue growth and 3.76% operating expense growth. Fitch considers forecasted toll revenue growth reasonable, as toll revenues have generally grown 1%-2% during stable periods; forecasted operating expense growth is considered conservative in comparison to historical 5-10-year CAGRs of 1.1% or less. The forecast also includes the aforementioned debt issuances occurring every 3-5 years and a toll increase of approximately 25% in FY2031 once the turnpike begins to reach its pinch point. On an average basis, DSCRs remain around 3x for the senior lien and in the 1.7x-2.2x range for all liens. Senior leverage declines to 3.17x by FY2021, while all-liens leverage declines to 5.4x.

Fitch's cases incorporate similar assumptions as the sponsor case in terms of future debt issuances and the potential toll increase. However, in Fitch's base case, toll revenues grow at 1% through FY2030 and 0.5% after the toll increase, reflecting a mature system. Given the authority's low rates, considerable time lapse from prior rate increase in 2012, and low historical elasticity, Fitch has assumed minimal demand elasticity to the 2031 toll increase in its scenarios. Operating expenses are grown at 3% in consideration of the turnpike's favorable history of cost containment.

Fitch's rating case includes 0.5% growth in toll revenues with a 3% shock in FY2020, slightly lower than the turnpike's experienced shock in traffic during the Great Recession. Operating expense growth remains in-line with the sponsor case. Fitch's base case total average DSCRs are approximately 10 bps lower than the sponsor case, while rating case DSCRs are roughly 40 bps below the sponsor case. Leverage remains in the 2x-3x range for the senior lien and the 5x-6x range for all liens in both cases. In Fitch's opinion, the authority's decreasing debt service profile, which features a sizable expected drop-off in debt service obligations in FY2031, should leave the MTA dependent on only modest revenue growth to meet its obligations.

In Fitch's view, senior lien metrics are considered consistent with the 'AA-' rating, including extra financial cushion to offset the turnpike's additional volume risk which other peers within the 'AA' category do not possess. Additionally, metrics on an all-liens basis appropriately warrant an 'A-' rating for the special obligation bonds, reflecting the additional coverage necessary to mitigate risk associated with the bond's weaker debt structure.

The Maine Turnpike Authority is a body politic and corporate that is empowered under the enabling act to construct, maintain, and operate the turnpike. The Maine Turnpike extends 109 miles from a point in Kittery, ME in the south to a point in Augusta, ME in the northeast.

SECURITY
The senior lien bonds are secured by a pledge of all turnpike revenues, including all moneys, funds and other income received by the authority from the operation of the turnpike.

The special obligation bonds are secured by a pledge of all special obligation revenues, specifically all moneys, funds and other income transferred to the trustee after all obligations for the more senior liens, as well as the deposit into the reserve maintenance fund has been satisfied.

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Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 28 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=870967
Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 29 Sep 2015)
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