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Maine Turnpike Authority; Toll Roads Bridges

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Maine Turnpike Authority; Toll Roads Bridges

Credit Profile

US\$130.0 mil tpk rfdg bnds ser 2015 dtd 04/02/2015 due 07/01/2038

Long Term Rating AA-/Stable New

Maine Tpk Auth spl oblig (AGM)

Unenhanced Rating A(SPUR)/Stable Affirmed

Maine Tpk Auth

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to Maine Turnpike Authority's (MTA) series 2015 turnpike revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' ratings on the authority's parity debt outstanding, and its 'A' rating on the authority's series 2014 special obligation bonds (subordinate lien). The outlook is stable.

The 'AA-' rating reflects our opinion of the MTA's:

- Good historical financial performance, with senior-lien debt service coverage (DSC) levels of no less than 2x for fiscal years 2005-2014 (year ended Dec. 31). Management's five-year forecast anticipates this continuing;
- Relatively strong market position, with the turnpike representing a gateway for the southernmost tip of coastal Maine as a result of the limited number of competing free roads within its service area;
- Stable long-term traffic growth;
- Good historical growth in net toll revenues, with a compound annual growth rate of 4.7% from fiscal years 2010-2014, due mainly to toll rate increases in 2012; and
- Upward rate-setting flexibility, with what we believe to be a relatively low cost-per-mile for passenger cars.

In our opinion, somewhat offsetting the strengths are seasonal fluctuations in traffic, reflecting the importance of tourism to the authority's operations.

The special obligations-lien rating incorporates our view of these factors, as well as the deeply subordinate nature of the revenues securing the bonds, the absence of a debt service reserve for those bonds, and slightly lower combined coverage. With this issue, the bonds' maturity is to extend to 2034 for the special obligation bonds, and 2043 for the turnpike revenue bonds.

Proceeds of the 2015 bonds will retire parity turnpike revenue bonds outstanding.

The Maine Turnpike covers approximately 109 miles from the New Hampshire-Maine border at the Piscataqua River northward to Augusta, Maine, providing access to the highly recreational coastal area between York and Portland. The turnpike is a closed-barrier and entry toll collection system, and has electronic collection. There are four mainline and 15 ramp toll plazas along the turnpike.

Net revenues secure the revenue bonds. The MTA covenants to maintain rates and charges that provide at least 1.2x DSC. Coverage has always been stronger than this. In fact, the authority has an internal policy to maintain coverage of at least 2x. When the ratings on surety bond providers dropped below indenture thresholds, the MTA began to cash-fund the debt service reserve fund to 50% of maximum annual debt service (MADS). The rate covenant requires the authority to increase the debt service reserve to 100% of MADS if debt service coverage dips below 2x for two consecutive years, but only until it has maintained DSC at 2x or higher for two consecutive years, which it did in fiscal years 2005-2013.

Special obligation revenues secure the MTA's subordinate-lien bonds. Special obligation revenues include all money, funds, and other income in the debt service fund, as well as the money, funds, and investment income from any investment of special obligation revenues. As of Feb. 1, 2015, the MTA had approximately \$392 million in turnpike revenue bonds, along with about \$36.5 million in special obligation bonds, which are subordinate to the turnpike revenue bonds. The authority's toll covenant covers the special obligation bonds. It has no variable-rate debt or swaps. It has no plans to issue additional senior-lien or special obligation revenue debt, for new money purposes, in the next 10 years.

Following a toll rate increase Nov. 1, 2012, and revisions to a commuter discount program that has increased the number of frequent travelers to the turnpike, revenues for fiscal 2013 increased 15.9% and, according to unaudited figures, 1.5% in 2014. DSC of all debt in fiscal 2013 was what we consider strong, at 2.52x, up from 2.32x in fiscal 2012, and continues what we view as a trend of good overall financial performance. Projected coverage in the MTA's forecast indicates stronger coverage of at least 2.7x in fiscals 2015-2019.

Outlook

The stable outlook reflects our expectation that good budgeting practices and recent revenue enhancements will enable the authority to maintain strong DSC, as it has forecast. We do not expect to raise the rating within the two-year outlook period, because we expect financial and operating performance to remain consistent with the ratings. If traffic trends decline or if DSC levels deteriorate, we could lower the ratings.

Issuer

The MTA operates and maintains the turnpike between Kittery and Augusta. It acts through a seven-member board, of which the governor appoints six (subject to state legislature confirmation) for six-year terms. The governor designates one of these as chairman. The commissioner of the Maine Department of Transportation (DOT), or the commissioner's designee, is an ex-officio member of the authority and the seventh board member. The MTA can act only upon the concurrence of at least four members. It has autonomy in changing the turnpike's toll rate structure. For the structure to change, a consultant would need to recommend it and supply a traffic study that would provide the basis for the action.

Traffic Mix And Demand

Total transactions increased in three of the past five years since 2009, but are still below the 2007 peak due to the effects of the Great Recession and, more recently, toll increases in 2009 and 2012. However, the 75.6 million transactions in 2014 is only about 1.3% below the 2007 peak (76.6 million), a decline we view as modest. Passenger cars constituted about 90% of the turnpike's annual transactions, with commercial vehicles making up the balance. About half of the turnpike's revenues come from out-of-state motorists, reflecting the strong, seasonal tourist presence. Because the turnpike essentially represents the primary gateway to the southernmost tip of coastal Maine, it has historically had a seasonal demand profile, with monthly toll transactions peaking in August and dropping in winter months.

Finances

The MTA's historical financial performance has been good, in our view. In the past four years, although traffic growth has increased just 2.5%, net toll revenues were up 20.2%, to \$123 million. We attribute this predominantly to the toll increases in November 2012 (23%), which provided a similar revenue bump experienced following the authority's previous two toll increases. We believe the authority's senior-lien annual DSC, as calculated in the bond resolution, has been strong historically, at no less than 2x from fiscal years 2005-2014. In fiscal 2014, audited figures indicate similarly strong senior-lien DSC (2.57x). According to its forecast, the MTA expects DSC to exceed 2.7x through 2019, and no additional toll rate increases until 2031. Audited figures for fiscal 2013 indicate on-balance-sheet liquidity, including maintenance reserves and unrestricted cash and investments is adequate, in our view, at \$37.6 million, or 395 days' cash on hand as of Dec. 31, 2013.

Capital Program

The MTA's reserve maintenance and capital improvement program for fiscal years 2015-2024 totals approximately \$501 million, which it expects to fund with annual revenues. The authority has no debt plans during that period. The main spending categories include toll plazas, bridges, and pavement. We believe the program is manageable, with no additional debt expected. Management projects that total DSC will remain at least 2.5x in the next five years, without further toll rate increases, through 2019.

The 2014 special obligation bond proceeds funded the MTA's purchase from the state's DOT of 1.9 miles of Interstate 95, at the turnpike's southern terminus, which brought the turnpike to the state's border with New Hampshire. Before this transaction, the authority had already been responsible for maintaining this section of road, by way of a previous agreement the DOT, so we do not believe there is any meaningful increase in its operating and maintenance budget in conjunction with the acquisition. Furthermore, under the new agreement, for the next 30 years, the MTA's annual commitment to fund DOT projects (5% of its annual operating revenue, calculated on a three-year rolling average) will apply to maintenance and repair costs on the purchased highway. Debt service expenses on the special obligation bonds also count toward this commitment, which we believe further limits the transaction's financial impact.

Related Criteria And Research

Related Criteria

Criteria: Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014

Ratings Detail (As Of February 25, 2015)		
Maine Tpk Auth spl oblig bnds ser 2014 due 07/01/2034		
<i>Long Term Rating</i>	A/Stable	Affirmed
Maine Tpk Auth tpk rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Maine Tpk Auth tpk rev bnds		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Maine Tpk Auth tpk rev rfdg bnds ser 2005		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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