FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Illinois State Toll Highway Auth.'s Series 2021A Sr. Revenue Bonds 'AA-'; Outlook Stable

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Fitch Ratings - Austin - 02 Nov 2021: Fitch Ratings has assigned an 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately $600 million of series 2021A senior revenue bonds. In addition, Fitch has affirmed the 'AA-' rating on ISTHA's $6.4 billion of outstanding toll highway senior revenue bonds. The Rating Outlook on all bonds is Stable.

RATING RATIONALE

The rating reflects the essentiality of the tollway system, evidenced by its long-term growing traffic base and moderate price elasticity. The rating further reflects ISTHA's prudent debt management with strong historical and projected debt service coverage ratios (DSCRs) with a major capital program underway. The potential risks posed by ISTHA's sizable capital program are largely mitigated by a history of delivering capital programs on time and under budget, a very robust balance sheet position, and an already implemented 60% aggregate commercial toll increase phased in from 2015-2017, which complements the 88% passenger vehicle toll increase in 2012.

KEY RATING DRIVERS

Essential Road Network with Stable Demand (Revenue Risk: Volume - Stronger)

The tollway system provides critical transportation links that serve the Chicago and northern Illinois metropolitan area providing key connections to interstate highways. Toll transactions have grown nearly every year since 1974; the 2014-2019 compounded annual growth rate (CAGR) of 4.1% reflects consistent growth of both commercial and passenger vehicles. Price elasticity has proven relatively inelastic for passenger traffic and even more so for commercial vehicles. The network benefits from a passenger vehicle base, comprised mostly of commuters, that accounted for 85.1% of total transactions in 2020.

Demonstrated Rate-Making Flexibility (Revenue Risk: Price - Stronger)

While ISTHA has full legal authority to adjust toll rates and has demonstrated in the recent past a willingness to implement significant increases when necessary, future toll increases beyond the authorized annual inflationary commercial rate increases are uncertain. A passenger vehicle toll increase of 88% was implemented in 2012 and an aggregate 60% commercial toll increase was phased in between 2015-2017, with CPI-based annual increases to commercial tolls thereafter. The latest CPI-based commercial increase went into effect on Jan. 1, 2021.

Large Capital Plan Partially Debt Funded (Infrastructure Development/Renewal - Midrange)

ISTHA is in the tenth year of its 16-year, $14.1 billion MOVE Illinois capital program. Funding is expected to come from $5.8 billion par amount of new money debt issuances ($3.6 billion of which has already been issued) with the remainder from cash flow, supported by recent and future toll increases as well as the implementation of a video toll fee effective as of February 2018. The authority completed its previous $5.7 billion congestion relief program (CRP) on time and under budget, and MOVE Illinois is similarly proceeding according to plan, on track to be completed in 2027.

Conservative Debt Profile (Debt Structure - Stronger)

All debt is senior lien and fully amortizing. Further, the ISTHA has taken steps to stabilize its capital structure evidenced by eliminating its variable rate exposure and transitioning to all fixed rate debt. Maximum annual debt service (MADS) is currently estimated to be $525 million in 2031, but is forecast by the authority to increase to approximately $635 million including projected future issuances for MOVE Illinois.

Financial Metrics

The current tollway system's $6.4 billion debt burden is expected to increase measurably to $8 billion in conjunction with the completion of the capital program. However, the authority's net debt-to-cash flow available for debt service (CFADS) is moderate at approximately 5.5x for 2020 and is not expected to increase higher than 7x as a result of the MOVE Illinois program.

DSCR has historically been above 2.0x, including over 2.5x since fiscal 2015, expect for 2.1x in pandemic-impacted 2020. Fitch's rating case projects DSCR to average 1.9x through the next 10 years. Strong liquidity of over 1,000 days cash on hand as of 2020 provides the authority with additional financial flexibility, although this will contract to partly fund the MOVE Illinois program.

PEER GROUP

The closest Fitch-rated large expressway network peers include Harris County Toll Road Authority (HCTRA; AA/Stable) and Central Florida Expressway Authority (CFX; A+ Senior/A Subordinate/Stable), despite a significantly larger annual volume and toll revenue base for ISTHA. The authority has higher coverage than CFX, but lower coverage and greater capital needs compared with HCTRA, which largely explains its rating relative to these peers.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--DSCR falling below 1.8x for a sustained period;

--A persistent, rising interest rate environment given the authority's vast and prolonged borrowing needs;

--Stabilized leverage above 8.0x.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the authority's sizeable multi-year capital program, upward migration is not likely at this time.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

The authority is issuing its tenth series of new money bonds in the amount of $600 million for the $14.1 billion MOVE Illinois, 16-year capital program, expected to be complete in 2027. These bonds are fixed-rate with a final maturity of Jan. 1, 2046 and are expected to price in November 2021. Proceeds will go towards project costs, deposits to the debt service reserve, as well as costs associated with the issuance.

CREDIT UPDATE

Throughout the pandemic, commercial traffic has outperformed passenger traffic. In June 2021, the State of Illinois entered Phase 5 of Restore Illinois with nearly all coronavirus restrictions lifted. As of August 2021, passenger car transactions were down 12% compared to the same period in 2019. Eight-month year to date toll revenue reached 92% of 2019 levels.

In 2020, evaded tolls (expected toll revenues less booked toll revenues) reached 12% of toll revenues and evasion recovery was 61%, resulting in an average net leakage of 5%. Net leakage has been uneven due to elevated levels of evaded rolls resulting from the sudden conversion to all-electronic tolling in March 2020. Historically, between 2015-2019, evaded tolls averaged 6% and evasion recovery averaged 80%, resulting in an average net leakage of 1%. Evaded tolls are projected to peak up to 14% in fiscal 2021 before incrementally dropping down to 10% from 2024 onwards. Net leakage for fiscal 2021 is projected to decrease to 2% due to the expiration of ISTHA's toll fare amnesty program, which ended in fiscal 2020.

Traffic and toll revenues were materially adversely affected by the coronavirus pandemic. Passenger traffic in fiscal 2020 was down 24% to 686,065 transactions. Commercial traffic was down 2% to 120,584 transactions. The tollway's total 2020 operating revenues reached $1.3 billion, down 15% from fiscal 2019. Operating expenses increased by 3% largely due to increased engineering and maintenance of roadway structures expenses. Fiscal 2020 DSCR decreased to 2.1x compared to fiscal 2019's 2.8x mainly due to the reduction in passenger car transaction revenues.

In addition to the 2021A bonds, the authority also currently expects to issue, as additional senior bonds on parity with the 2021A bonds and all senior bonds currently outstanding, approximately $1.6 billion aggregate principal amount of additional senior bonds to finance a portion of the costs of the Move Illinois Program, consisting of approximately $500 million of bonds issued during the 2022 and approximately $1.1 billion of bonds issued during the years 2023-2024. Amounts and timing are estimated and subject to change.

As cashflow and the overall program schedule permits, the authority may adjust timing of individual projects within existing project budgets, including to reduce project costs, reduce construction impacts on commuters, and/or optimize use of available resources in response to temporary delays.

FINANCIAL ANALYSIS

Fitch's cash flow cases for the system deviate from the conventional toll road cases as described in 'Fitch Updates Transportation Sector Coronavirus Assumptions' (Nov. 30, 2020). The conventional cases are designed to model a recovery back to 2019 levels, and since the authority's transactions have nearly reached the 2019 baseline, the conventional approach was not informative for this entity. Both cases incorporate planned new debt issuances of $2.2 billion, inclusive of the $600 million series 2021 bonds.

Fitch's rating case assumes a lingering impact of the coronavirus pandemic on traffic is in 2021, where revenues reach 93% of 2019 levels in 2021. This includes YTD traffic and revenue available. Passenger traffic grows at 0.7% and commercial traffic grows at 1.4% thereafter. Traffic fully recovers in 2022 and revenues grow at an average of 1% per year until debt maturity. Operating expenses grow by roughly 4.5% thereafter. Under this scenario, the 10-year average DSCR, assuming no further passenger toll increases, is 1.9x.

Fitch's downside case assumes a moderately slower return to 2019 levels. 2021 revenues reach 87% of 2019 performance and 2022 revenues reach 98% of 2019 levels. Passenger and commercial traffic growth as well as O&M expenses follow the rating case. This results in an average DSCR of 1.8x.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Illinois State Toll Highway Authority (IL)				
• Illinois State Toll Highway Authority (IL) /Toll Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

Infrastructure and Project Finance Rating Criteria (pub. 23 Aug 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Illinois State Toll Highway Authority (IL)	EU Endorsed, UK Endorsed

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