

Research

Summary:

Illinois State Toll Highway Authority; Toll Roads Bridges

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Credit Profile

US\$600.0 mil Toll Highway Sr Rev Bnds ser 2021A dtd 08/23/2021 due 01/01/2046

Long Term Rating AA-/Stable New

Illinois St Toll Hwy Auth toll rds brs

Long Term Rating AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) pro forma \$600 million toll highway senior revenue bonds, series 2021A. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on ISTHA's senior-lien toll revenue bonds outstanding. The outlook is stable.

Net revenues of the ISTHA toll system secure the authority's toll road revenue bonds. Bond proceeds will fund capital improvements to the tollway system as part of the Move Illinois Program (MIP), make a deposit to the debt service reserve fund, and pay costs of issuance. Post-issuance, ISTHA will have \$7.0 billion in principal outstanding, consisting entirely of senior-lien, fixed-rated bonds. ISTHA plans to issue \$500 million of bonds in 2022, \$600 million in 2023, and \$500 million in 2024 as part of its final funding of MIP with no additional debt plans beyond 2024 at this time.

The Illinois Tollway, governed by an 11-member board of directors, operates 294 miles of interstate tollways in 12 counties in northern Illinois, including the greater Chicago area. The system comprises five major routes: Tri-State Tollway (interstates 294, 94, and 80), Jane Addams Memorial Tollway (Interstate 90), Ronald Reagan Memorial Tollway (Interstate 88), Veterans Memorial Tollway (Interstate 355), and the recently opened Illinois Route 390. The Tri-State accounts for about 45% of system revenue and about 40% of system transactions, while the remaining three (not including the recently opened Illinois Route 390) are about evenly split.

Credit overview

The ratings reflect our opinion of the authority's very strong enterprise risk profile and financial risk profile as well as a large capital funding plan that will require future additional bond issuances to complete. Our enterprise risk profile assessment reflects ISTHA's very strong market position due to the system's important role as a regional urban infrastructure provider, with critical transportation links in northern Illinois that include the deep and diverse Chicago metropolitan statistical area (MSA), despite the existence of nontolled alternatives. Our financial risk profile assessment reflects our expectation that actual debt service coverage (DSC; S&P Global Ratings-calculated) will continue at levels we consider strong given the relatively quick recovery in ISTHA's traffic levels and management's ability to adjust operating expenditures, defer capital spending, and increase toll rates if needed.

ISTHA reports that total toll transactions and toll revenue for the fiscal year ended Dec. 30, 2020, declined 21.2% and 16.8%, respectively, compared with fiscal 2019 levels. Year-to-date total toll transactions and toll revenue for fiscal 2021 through August are down about 10% and 8%, respectively, from 2019 levels during the same period pre-pandemic (fiscal 2019), with actual commercial toll transactions up 5.9% and passenger toll transactions down 12.1%. The decreases in traffic volume and net toll revenue for fiscal years 2020 and 2021 are attributable to the COVID-19 pandemic and associated effects, but the system overall has seen recovery and the negative financial impacts have diminished.

The consultant's baseline forecast includes a traffic and revenue report, completed by CDM Smith in connection with this bond issuance, and assumes an annual transaction growth of 2.7% for toll transactions during 2022-2030, with a recovery to 2019 traffic and revenue levels by 2022, which is on par with S&P Global Ratings' current U.S. June 2021 baseline activity estimates. We believe this is reasonable given that ISTHA's current traffic levels are performing in line with our current recovery estimates. The forecast assumes no changes in ISTHA's existing toll-rate policy and projects toll revenues reaching \$1.57 billion by 2023, \$1.73 billion by 2026, and \$1.86 billion by 2029.

Key credit strengths, in our opinion, are:

- The system's role as a regional urban infrastructure provider, with critical transportation links in northern Illinois that include the deep and diverse Chicago MSA, despite the existence of nontolled alternatives;
- Very strong DSC and debt-to-net revenues, supported by historical toll transaction growth, and our expectation that DSC and debt-to-net revenues will remain generally comparable, albeit somewhat weaker in the near term due to the effects of the COVID-19 pandemic;
- Exceptional liquidity, with unrestricted reserves totaling \$1.04 billion in fiscal 2020, equal to more than two years' cash on hand; and
- ISTHA's very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently to address material variances, and a very capable staff that has considerable experience operating a regional tolling agency.

Key credit weaknesses, in our view, are:

- Significant ongoing capital needs, requiring about \$1.6 billion of additional debt (during 2022-2024) to finance ISTHA's Move Illinois Program, and
- ISTHA's escalating debt service requirements and additional debt plans, with level all-in debt service not occurring until 2031.

The stable outlook reflects our assessment of the high and relatively price-inelastic demand for authority facilities during our two-year outlook period, allowing ISTHA the flexibility to raise tolls as needed to ensure continued strong financial performance.

Environmental, social, and governance (ESG) factors

We analyzed the ISTHA's ESG risks relative to its market position, management and governance, and financial performance and determined that all are in line with our view of the toll road sector standard. Although the authority's

revenue performance was affected by activity declines due to the COVID-19 pandemic, which we view as a social factor, this risk is abating and not viewed as a material credit factor.

Stable Outlook

Upside scenario

We could raise the ratings in the next two years if ISTHA maintains financial metrics at their current high levels as it continues funding its large capital needs.

Downside scenario

Although unlikely, we could lower the ratings if traffic levels or revenues are materially below forecast and recent actual performance.

Credit Opinion

The U.S. economy has cooled somewhat but remains resilient, leading S&P Global Economics to revise forecasts of real GDP growth for 2021 and 2022 to 5.7% and 4.1%, respectively, from estimates in June 2021 of 6.7% and 3.7%. Supply disruptions remain the leading suspect slowing the world's biggest economy, and the delta variant is now an additional drag. Recent economic data indicate people are pulling back after the reopening earlier this year. General consumer sentiment remains near August's 10-year low. The near-term health of the U.S. economy remains strong, and our current GDP forecast, if correct, is still the highest reading since 1984. The U.S. economy has felt less impact with each wave of the coronavirus and has been able to withstand the damage. We maintain our assessment of U.S. recession risk over the next 12 months at 10%-15%--our lowest assessment in six years. For more information, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," Sept. 23, 2021.

Despite being an administrative agency of the state, the tollway is a fully self-supporting enterprise, which derives approximately 98% of its operating revenue from the tolls and evasion recovery it collects from those who use its toll highways. Its board of directors has the authority to increase toll rates as needed. The tollway does not receive any state funding, and it is not dependent on state appropriations. Its finances are also separate and independent from those of the state. The authority, not the state, collects toll revenue, and then is required to transfer that revenue to the state treasurer, who is then responsible, at the authority's direction, to pay ISTHA expenses as they become due and to submit funds to the trustee to satisfy ISTHA bond-related payments and deposits required under the indenture. In this case, however, the state treasurer is the legal custodian, and the authority's revenue is not comingled with any other state funds or money. Furthermore, there are strong statutory, constitutional, and other legal protections that we believe are likely to prevent the state from diverting significant tollway revenue for unrelated purposes. While the state could become motivated to take steps to rewrite, eliminate, or even ignore such protections in times of severe financial distress, we believe the likelihood of this happening is remote since our forward-looking view on the state is reflected in our current stable outlook. However, should the state's financial situation materially weaken, it could cause downward pressure on the ratings on ISTHA's bonds since, in our opinion, the likelihood of the state diverting authority revenue for non-ISTHA purposes increases.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 28, 2021)		
Illinois St Toll Hwy Auth toll hwy sr rev bnds (rfdg)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Illinois St Toll Hwy Auth toll rds brs (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Illinois St Toll Hwy Auth toll rds brs (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Illinois St Toll Hwy Auth (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Illinois St Toll Hwy Auth (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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