FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Illinois State Toll Highway Auth.'s Series 2023A Sr. Revenue Bonds 'AA-'; Outlook Stable

Tue 18 Apr, 2023 - 5:30 PM ET

Fitch Ratings - Chicago - 18 Apr 2023: Fitch Ratings has assigned a 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately $500 million of series 2023A senior revenue bonds. In addition, Fitch has affirmed the 'AA-' rating on ISTHA's $6.83 billion of outstanding toll highway senior revenue bonds. The Rating Outlook on all bonds is Stable.

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- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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 strong balance sheet position, and a proactive history of toll rate hikes when needed.

KEY RATING DRIVERS

Revenue Risk - Volume - High Stronger

Essential Road Network with Stable Demand

Fitch has revised its assessment of Revenue Risk (Volume) to 'High Stronger' from 'Stronger' following the publication of its new Transportation Infrastructure Rating Criteria, which assesses volume risk on a five-point scale.

The tollway system provides critical transportation links that serve the Chicago and northern Illinois metropolitan area providing key connections to interstate highways. Prior to the pandemic, ISTHA had consistent growth for both commercial and passenger vehicles attesting to demand in the reference market. 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.

Revenue Risk - Price - Stronger

Demonstrated Rate-Making Flexibility

ISTHA has full legal authority to adjust toll rates at its discretion without limit. The authority has a multi-decade history of implementing occasional and significant rate hikes to sustain a strong financial profile and limit borrowing needs. Future toll increases beyond the authorized annual inflationary commercial rate increases are uncertain.

Infrastructure Dev. & Renewal - Midrange

Large Capital Plan Partially Debt Funded

ISTHA's system requires significant capex in order to maintain the condition of the system, evidenced by the large Move Illinois capital program. Funding is expected to come from new money debt issuances and cash flow, supported by recent and future toll increases. The authority completed its previous significant capital program (Congestion Relief Program) on time and under budget.

Debt Structure - 1 - Stronger

Conservative Debt Profile

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. Structural features are strong overall, and the authority maintains cash and surety-funded debt service reserve funds (DSRF) with a combined balance sized to maximum annual debt service (MADS).

Financial Profile

The current tollway system's $7 billion debt burden is expected to increase to over $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 5x for fiscal 2021 and is not expected to increase higher than 6.6x as a result of the Move Illinois program. By fiscal 2027, leverage is expected to decline to 5.7x in Fitch's rating case.

ISTHA's DSCR has historically been above 2.0x, including over 2.5x from fiscal 2015-2019. DSCR increased from 2.3x in fiscal 2021 to an estimated 2.4x in fiscal 2022 showing ISTHA's continuing recovery from the pandemic. Fitch's rating case projects DSCR to average approximately 2.0x through the next 10 years. Strong liquidity of over 900 days cash on hand as of fiscal 2022 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 borrowing needs over the near future.

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

-- Sustained Fitch rating case DSCR at or above 2.5x including all future debt issuances.

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 11th series of new money bonds in the amount of $500 million for the Move Illinois, 16-year capital program, currently estimated to be complete in fiscal 2027 at a total cost of approximately $14.8 billion. These bonds are fixed-rate with a final maturity of Jan. 1, 2045 and are expected to price in April 2023. Proceeds will go towards project costs, a deposit to the debt service reserve, as well as costs associated with the issuance.

CREDIT UPDATE

As of fiscal 2022, unaudited passenger car transactions have recovered to 91.9% of pre-pandemic levels (fiscal 2019), a 2.6% increase compared with the previous year. Variants of COVID-19 and work-from-home policies slowed down the pace of recovery for commuter traffic. Throughout the pandemic, commercial traffic has outperformed passenger traffic similar to other tollway systems across the U.S.

In fiscal 2021, evaded tolls (expected toll revenues less booked toll revenues) reached 13.1% of toll revenues and evasion recovery was 75.2%, resulting in an average net leakage of 3.3%. Evasion recovery for fiscal 2022 is expected to be above 100% mainly due to the amnesty offer ending in fiscal 2023. Net leakage has been uneven due to elevated levels of evaded tolls 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 and net leakage are projected to remain at 13% and 3.5%, respectively, in the future.

The tollway's unaudited fiscal 2022 total operating revenues were just below $1.6 billion, an increase of 5.4% from fiscal 2019. Operating expenses increased by 1% when compared with the previous fiscal year. Fiscal 2022 DSCR increased to 2.4x compared to fiscal 2021's 2.3x mainly due to the continued passenger traffic recovery and the annual commercial toll increase.

In addition to the 2023A bonds, the authority currently expects to issue, as additional senior bonds on parity with the 2023A bonds and all senior bonds currently outstanding, approximately $1.5 billion aggregate principal amount of additional senior bonds. The additional bonds will be used to finance a portion of the costs for the Move Illinois Program. 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 has adopted the authority's sponsor case as its base case. ISTHA's traffic increases at a CAGR of 2.0% from fiscal 2023 through 2032. Operating expenses grow at a 10-year CAGR of 4.9%. The 10-year DSCR averages 2.1x and never drops below 1.9x assuming no further passenger car toll rate increases. This scenario includes another anticipated $2 billion in new money bonds for the Move Illinois program borrowed at a 5.0% rate, which Fitch believes is a reasonable rate assumption. Despite debt outstanding growing to over $8 billion by the end of the program, leverage peaks at 6.4x in fiscal 2025. The base case results in year-five net debt to CFADs of 5.4x in fiscal 2027.

Fitch's rating case assumes more conservative traffic growth as well as a less positive impact on transactions from the Move Illinois capital improvements such that total traffic grows at a 1.5% CAGR between fiscal 2023 and 2032. Expenses grow at 50 bps higher than the base case in each year. All additional Move Illinois debt service was modelled identically to the base case. Under this scenario, the 10-year average DSCR assuming no further passenger toll increases is just under 2.0x. Leverage is 5.7x in fiscal 2027.

In addition, Fitch analyzed MADS coverage using projected fiscal 2023 CFADS from its rating case and coverage is 1.7x, indicating limited reliance on growth as the fiscal 2023 CFADs could cover the projected escalation in annual debt service resulting from the additional Move Illinois borrowing. The tollway's strong franchise strength taken together with its robust financial metrics and very limited dependence on growth remain commensurate with its 'AA' category rating.

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

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 20 Jul 2022) (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

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