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## Summary:

# Illinois State Toll Highway Authority; Toll Roads Bridges

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### Credit Profile

US\$500.0 mil Toll Hwy Sr Rev Bnds ser 2023 A dtd 04/01/2023 due 01/01/2048

|                           |            |          |
|---------------------------|------------|----------|
| <i>Long Term Rating</i>   | AA-/Stable | New      |
| Illinois St Toll Hwy Auth |            |          |
| <i>Long Term Rating</i>   | AA-/Stable | Affirmed |
| Illinois St Toll Hwy Auth |            |          |
| <i>Long Term Rating</i>   | AA-/Stable | Affirmed |

### Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) toll highway senior revenue bonds, pro forma \$500 million series 2023A.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on ISTHA's senior-lien toll highway revenue bonds outstanding.
- The outlook is stable.

### Security

Net revenues of the ISTHA toll system secure the authority's toll highway revenue bonds.

The series 2023A 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. The MIP is ISTHA's capital program for 2012-2027. The current estimated cost of the MIP is \$14.8 billion. The MIP consists of projects intended to substantially complete the rebuilding of the tollway system, improve mobility, relieve congestion, reduce pollution, and link economies across northern Illinois.

Post-issuance, ISTHA will have approximately \$7.3 billion in principal outstanding, consisting entirely of senior-lien, fixed-rated bonds. ISTHA projects issuing \$500 million more bonds later this year, \$500 million in 2024, and \$500 million in 2025, which is expected to complete the debt financing of MIP. No additional new money debt issuances are anticipated beyond 2025 at this time. ISTHA has no variable-rate debt, direct-purchase obligations, or swaps outstanding.

### Credit overview

The rating reflects our opinion of the authority's very strong enterprise risk and financial risk profiles as well as a large capital funding plan that will require additional debt 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 non-tolled alternatives. Our financial risk profile assessment reflects our expectation that debt service coverage (DSC; S&P Global Ratings-calculated) will continue at levels we consider strong (near 2x) supported by generally favorable traffic trends, toll rate increases, and management's ability to adjust operating expenditures and defer capital spending, if needed.

ISTHA reports that unaudited total toll transactions and booked toll revenue for the fiscal year ended Dec. 31, 2022, increased to 94% and 97%, respectively, of 2019 levels. Higher 2022 commercial traffic volumes (106% of 2019) and recent commercial vehicle toll rate increases have offset lower-though-improving 2022 passenger traffic volumes (92% of 2019). In 2022, commercial vehicles accounted for 52% of total toll revenues and 14% of total transactions. All tolls are collected electronically along the entirety of ISTHA's 294-mile system. Approximately 88% of toll transactions are collected from I-PASS transponders and 12% are collected based on video capture of license plate information. Prior to ISTHA's implementation of all-electronic toll collection across the entire system in 2020, evaded tolls averaged approximately 6.4% of expected toll revenues from 2015 to 2019 with a net leakage of about 1.4%, on average. Since 2020, evaded tolls have averaged approximately 12.6% of expected toll revenues from 2020 to unaudited 2022 with evasion recovery efforts resulting in a net leakage of about 2.5%, on average.

A traffic engineer's report done in connection with this bond issuance, reasonably assumes annual toll revenue and transaction growth of 4.5% and 2%, respectively, for 2023-2032, with total toll revenue nearing 2019 levels this year (98% of 2019); and total toll transactions reaching 2019 levels around 2025 (98% of 2019) and 2026 (101% of 2019). The forecast assumes commercial vehicle toll rates will increase on Jan. 1 each year, based on changes to the CPI-U index. Annual adjustments implemented on Jan. 1 in 2018, 2019, 2020, 2021, and 2022 were based on CPI-U-based increases of 1.84%, 2.25%, 2.07%, 1.56%, and 2.30%, respectively. On Jan. 1, 2023, the annual commercial vehicle toll rate adjustment methodology was changed to the annualized percentage change in the CPI-U over a 36-month period instead of a 12-month period. The revised methodology resulted in a 3.65% increase in commercial vehicle toll rates on Jan. 1, 2023. The forecast assumes commercial vehicle Jan. 1 toll rate increases of approximately 4.6% in 2024, 4.7% in 2025, 3% in 2026, 2.2% in 2027, and 2% per year thereafter. We view the revised methodology favorably since it will likely result in an annual increase to commercial vehicles rates. Passenger car toll rates, which have not changed since 2012, are not forecast to change. Toll revenues, net of evaded tolls, are projected to increase 1.4% to \$1.36 billion in 2023, \$1.58 billion in 2027, and \$1.78 billion by 2032.

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 non-tolled alternatives;
- DSC and debt-to-net revenue that we expect will be maintained at levels we consider strong (near 2x) and very strong (below 10x), respectively, supported by generally favorable traffic volumes and toll rate increases;
- Exceptional liquidity, with unrestricted reserves totaling almost 1,000 days' cash on hand for 2017-2021 (averaging 1,082 days, audited) and 2022 (907 days, unaudited); 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.

These credit strengths, in our view, are somewhat offset by ISTHA's significant ongoing capital needs, requiring about \$1.5 billion of additional debt (during 2023-2025) to complete the debt financing of the MIP, potentially increasing ISTHA's debt service requirements 30% from 2022 to 2026; and a possible material drawdown of unrestricted cash reserves.

### **Environmental, social, and governance**

We analyzed ISTHA's environmental, social, and governance risks relative to its market position, management and governance, and financial performance and determined that all are neutral in our credit rating analysis.

## **Outlook**

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.

### **Downside scenario**

We could lower the rating over the two-year outlook period if ISTHA's traffic volume is significantly lower than forecast or the authority materially draws down its unrestricted cash reserves to fund capital needs.

### **Upside scenario**

Although unlikely, we could raise the rating in the next two years if we believe ISTHA can maintain S&P Global Ratings-calculated DSC near 2x, debt-to-net revenue below 5x, and days' cash above 800 days, as it finances its capital needs.

## **Credit Opinion**

ISTHA, governed by an 11-member board of directors, operates 294 centerline 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 four account for about 21% (Jane Addams Memorial), 17% (Veterans Memorial), 14% (Ronald Reagan Memorial), and 2% (Illinois Route 390) of system toll revenue.

Despite being an administrative agency of the state, the authority 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. The 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, for paying ISTHA expenses as they become due and submitting 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. Although the state could become motivated to take steps to rewrite, eliminate, or even ignore such protections during 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 lead to a negative rating action on ISTHA's bonds since, in our opinion, the likelihood of the state diverting authority revenue for non-ISTHA purposes increases. We currently rate the state 'A-/Stable'.

S&P Global Ratings believes that the U.S economy will fall into a shallow recession in 2023, although increased credit tightening stemming from recent events in the banking sector has elevated the likelihood of a hard landing.

Supply-chain disruptions continue in certain sectors and, while inflation likely peaked in third-quarter 2022 as prices for goods and products moderated, prices for services excluding housing remain elevated. Our U.S. GDP growth forecast is 0.7% for 2023 and 1.2% for 2024. We also now expect U.S. GDP to decline by 0.3 percentage points from its peak in first-quarter 2023 to its third-quarter trough. If correct, this will beat the 2001 recession as the softest recession since 1960. We expect the unemployment rate, at 3.6% in February 2023 and just above its pre-pandemic level, will rise in 2023 and peak at 5.4% in second-quarter 2024 before declining in late 2025. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of the Federal Reserve's continued aggressive policy stance to keep interest rates higher until inflation declines toward its 2% target. We believe the federal funds rate will peak at 5.00%-5.15% by May 2023 with the first interest rate cut in mid-2024. See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.

### Illinois State Toll Highway Authority, Illinois--Financial and operating data

|  | --December 31-- |           |           |           |           |
|--|-----------------|-----------|-----------|-----------|-----------|
|  | 2021            | 2020      | 2019      | 2018      | 2017      |
| <b>Financial performance</b>                                     |                 |           |           |           |           |
| Total operating revenue (\$000)                                  | 1,459,804       | 1,260,951 | 1,484,506 | 1,436,403 | 1,398,498 |
| Plus: interest income (\$000)                                    | 2,369           | 13,726    | 39,834    | 34,389    | 14,054    |
| Plus: other committed recurring revenue sources (\$000)*         | 13,631          | 13,611    | 13,555    | 15,205    | 15,148    |
| Less: total O&M expenses excluding noncash expenses (\$000)      | 358,783         | 380,679   | 394,143   | 402,010   | 402,690   |
| Numerator for S&P Global Ratings' coverage calculation (\$000)   | 1,117,021       | 907,609   | 1,143,752 | 1,083,987 | 1,025,010 |
| Total debt service (\$000)                                       | 467,926         | 442,114   | 419,460   | 424,244   | 398,411   |
| Denominator for S&P Global Ratings' coverage calculation (\$000) | 467,926         | 442,114   | 419,460   | 424,244   | 398,411   |
| S&P Global Ratings-calculated coverage (x)                       | 2.4             | 2.1       | 2.7       | 2.6       | 2.6       |
| <b>Debt and liabilities</b>                                      |                 |           |           |           |           |
| Debt (\$000)§  | 7,019,855       | 6,456,360 | 6,085,621 | 5,994,680 | 6,107,840 |
| EBIDA (\$000)  | 1,101,021       | 880,272   | 1,090,363 | 1,034,393 | 995,808   |
| S&P Global Ratings-calculated net revenue (\$000)                | 1,117,021       | 907,609   | 1,143,752 | 1,083,987 | 1,025,010 |
| Debt to net revenue (x)  | 6.3             | 7.1       | 5.3       | 5.5       | 6.0       |

## Illinois State Toll Highway Authority, Illinois--Financial and operating data (cont.)

|   | --December 31-- |           |           |           |           |
|---|-----------------|-----------|-----------|-----------|-----------|
|   | 2021            | 2020      | 2019      | 2018      | 2017      |
| <b>Liquidity and financial flexibility</b>                    |                 |           |           |           |           |
| Unrestricted cash and investments (\$000)                     | 1,142,118       | 1,072,763 | 1,216,113 | 1,070,168 | 1,240,975 |
| Unrestricted days' cash on hand (excluding credit facilities) | 1,161.9         | 1,028.6   | 1,126.2   | 971.6     | 1,124.8   |
| Available liquidity to debt % (excluding credit facilities)   | 16.3            | 16.6      | 20.0      | 17.9      | 20.3      |
| <b>Operating metrics</b>                                      |                 |           |           |           |           |
| Total toll revenue (\$000)                                    | 1,292,370       | 1,149,020 | 1,380,751 | 1,341,051 | 1,309,190 |
| Toll transactions (000)                                       | 936,595         | 806,650   | 1,023,222 | 1,008,952 | 997,334   |

Data above sourced or derived from ISTHA financial audits. \*Refers to BAB subsidy payments. §Excludes unamortized bond premium. O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. S&P Global Ratings-calculated net revenue = (Total operating revenue + interest income + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

### Ratings Detail (As Of April 14, 2023)

|  |                  |          |
|--|------------------|----------|
| Illinois St Toll Hwy Auth (BAM) (SECMKT)<br><i>Unenhanced Rating</i> | AA-(SPUR)/Stable | Affirmed |
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| Illinois St Toll Hwy Auth (BAM) (SECMKT)<br><i>Unenhanced Rating</i> | AA-(SPUR)/Stable | Affirmed |
| Illinois St Toll Hwy Auth (BAM) (SECMKT)<br><i>Unenhanced Rating</i> | AA-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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