



Rating Action: Moody's assigns Aa3 to Illinois State Toll Highway Authority's 2023 Series A Toll Highway Senior Revenue Bonds; outlook is stable.

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New York, April 17, 2023 -- Moody's Investors Service has assigned an Aa3 to Illinois State Toll Highway Authority's (ISTHA) \$500 million Toll Highway Senior Revenue Bonds, 2023 Series A. The outlook is stable. ISTHA has \$6.8 billion of debt outstanding.

RATINGS RATIONALE

The Aa3 senior lien rating is based on the authority's very strong market position characterized by the essential nature of its tollway system serving one of the largest population bases and most diverse economies in the nation. Strong traffic and revenue trends through toll increases and state-level fiscal stress demonstrate the inelastic demand for the tollway system roads and limited impact of competition. Debt service coverage remains strong, and leverage will weaken somewhat as a result of plans to issue an additional \$2.0 billion through 2025 (inclusive of the current Series 2023A bonds). Liquidity will decline if ISTHA's revenue matches projections and pay-go capital is spent in line with current plans. The authority does not rely on state funding and its rating acknowledges strong protections in the authorizing legislation, the master trust indenture, and the Illinois Constitution.

As with the broader toll road sector, the ISTHA revenues recovered to pre-pandemic levels, being 97% in 2022 and, in the first two months of 2023, at 102% of the same period in 2019. Total traffic in 2022 was 94% of 2019. While passenger traffic was still 8.1% down from 2019 in 2022, commercial traffic has shown much more resiliency than passenger traffic, with 2022 commercial traffic up 5.8% from 2019. In the first two months of 2023, traffic was at 99% of the same period in 2019. Expected revenue growth will keep net revenue DSCR near 2.0x and leverage below 6.5x despite the significant bond issuance planned through 2025.

RATING OUTLOOK

The stable outlook is based on the expectation that the authority will continue to exercise its rate-setting autonomy, that approved commercial toll increases will continue to be implemented as planned, and construction costs for the Move Illinois projects will be in line with estimates. The outlook is also based on the stable credit profile of the State of Illinois.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Traffic and revenues that significantly exceed current projection, with Moody's net revenue DSCR above 3.0x
- Adjusted debt to operating revenues below 4.0x
- Substantial improvement in the state's credit strength

- Liquidity remaining above 730 days cash on hand

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Substantial deterioration of the state credit profile
- DSCRs consistently falling below 1.75x on Moody's net revenue basis
- Adjusted debt to operating revenues above 7.0x
- Liquidity below 365 days cash on hand

LEGAL SECURITY

The bonds are secured by the net revenues of the authority. The authority has by statute the right to set and collect tolls. Net revenues must be at least equal to 1.30x aggregate annual debt service on a trust indenture basis. The additional bonds test is also 1.30x. The debt service reserve requirement is equal to maximum aggregate annual debt service and is cash-funded save a \$100 million surety provided by Berkshire Hathaway Assurance Corporation (Aa1 stable IFSR).

The authority has a three-pronged legal framework which provides separation from direct financial control by the state. First, the Toll Highway Act of 1968 is ISTHA's authorizing legislation, which states ISTHA monies can only be spent on toll highway O&M, debt service, renewal and replacement, and system improvement related obligations. Monies in excess of the above expenditures can only be spent on tollway purposes and dispersed only upon the order of the authority. Second, the authority's Master Indenture of 1999 states monies can only be used for purposes allowed in the Toll Highway Act. Finally, the 2016 Transportation Lockbox Amendment to Illinois State Constitution precludes transportation funds from being used for non-transportation uses.

USE OF PROCEEDS

Proceeds from the 2023 Series A bonds will be used to fund capital improvements, fund the debt service reserve account and pay costs of issuance.

PROFILE

ISTHA operates a tollway system that consists of approximately 294 miles of limited access highway in twelve counties in the northern part of Illinois and is an integral part of the expressway system in northern Illinois. The entire tollway system has been designated a part of the US Interstate Highway System, except for the 10 miles of Illinois Route 390. The system consists of five components: the newly widened and extended Illinois Route 390 (formerly the Elgin O'Hare Expressway) whose widened 6.5 mile segment opened for tolling in July 2016, and whose second 3.5 mile extension opened in November 2017. At completion the Elgin O'Hare Western Access Project will total 17 miles and provide Western access to O'Hare airport; the 76 mile Jane Addams Memorial Tollway, which constitutes a portion of US Interstate Highway 90; the 82 mile Tri-State Tollway constituting portions of US Interstate Highways 80, 94 and 294; the 30 mile Veterans Memorial Tollway (Interstate 355) which opened in December 1989 and was extended in 2007, and the 96 mile Ronald Reagan Memorial Tollway that constitutes a portion of US Interstate Highway 88.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at <https://ratings.moody.com/api/rmc-documents/60219>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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