



RATING ACTION COMMENTARY

Fitch Rates Illinois State Toll Highway Auth.'s Series 2024A Sr. Revenue Bonds 'AA-'; Outlook Stable

Fri 08 Dec, 2023 - 12:27 PM ET

Fitch Ratings - Chicago - 08 Dec 2023: Fitch Ratings has assigned a 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately \$900 million of series 2024A senior revenue refunding bonds. The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Illinois State Toll Highway Authority (IL)				
Illinois State Toll Highway Authority (IL) /Toll Revenues - First Lien/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

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 with a combined balance sized to maximum annual debt service.

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 is moderate at approximately 4.5x for fiscal 2022 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 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.

TRANSACTION SUMMARY

The authority expects to issue approximately \$900 million of series 2024A senior revenue refunding bonds. Proceeds will refund and legally defease all or portions of the series 2013A and 2014B senior revenue bonds and cover the cost of issuance. The bonds will be fixed rate, on parity with existing senior revenue bonds, and fully amortize through 2039. These bonds are expected to price as early as December 2023.

CREDIT UPDATE

As of fiscal 2022, 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.

Passenger transactions in YTD 2023 (nine months ended September 30) increased by 4.6% when compared with the same period in 2022, while commercial transactions decreased by 2.0% for the same period. Toll revenues are up 2.5% over the same period. The increase in toll revenue is mainly attributed to the annual commercial toll increase. Total transactions and revenues for YTD 2023 have reached approximately 77% and 66%, respectively, of Fitch's base case expectations for 2023.

For more information on ISTHA, please see "Fitch Rates Illinois State Toll Highway Auth.'s Series 2023A Sr. Revenue Bonds 'AA-'; Outlook Stable" at www.fitchratings.com.

DATE OF RELEVANT COMMITTEE

17 April 2023

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit

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APPLICABLE CRITERIA

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

[Infrastructure & Project Finance Rating Criteria -- Effective July 20, 2022–May 17, 2023 \(pub. 20 Jul 2022\) \(including rating assumption sensitivity\)](#)

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

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[Endorsement Policy](#)

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Illinois State Toll Highway Authority (IL)

EU Endorsed, UK Endorsed

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