Illinois State Toll Highway Authority

Toll Highway Senior Revenue Bonds

New Issue

Ratings

New Issues

$300,000,000 Toll Highway Senior Revenue Bonds, Series 2019A	AA–

Outstanding Debt

$5,948,860,000 Senior Revenue Bonds	AA–

Rating Outlook

Stable

Peer Group

Harris County Toll Road Authority (HCTRA)	AA (Senior)
Central Florida Expressway Authority (CFEA)	A+ (Senior)/ A (Sub)

Related Criteria

Rating Criteria for Infrastructure and Project Finance (July 2018)

Toll Roads, Bridges and Tunnels Rating Criteria (July 2018)

Related Research

Fitch Rates Illinois State Toll Highway Auth's Series 2019A Sr Revenue Bonds 'AA-'; Outlook Stable (June 2019)

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Key Rating Drivers

Summary: The Illinois State Toll Highway Authority's (ISTHA) 'AA–' rating reflects the system's essentiality, evidenced by stable and growing traffic since 1974 and demonstrated moderate price elasticity. Debt management is prudent, reflected in strong historical and projected coverage. Leverage should remain moderate, despite the authority's capital program, which requires an additional $2.6 billion in debt. Mitigating factors include a history of delivering capital programs on time and on budget and a robust balance sheet.

Essential Network, Stable Demand (Revenue Risk: Volume — Stronger): The tollway system provides critical transportation links and key connections to interstate highways. Toll transactions grew nearly every year since 1974, and the five-year CAGR is a strong 4.3% as economic recovery continues and benefits of the prior capital plan are realized. Price elasticity proved relatively inelastic for passenger traffic and even more so for commercial vehicles. The network benefits from a passenger vehicle base accounting for 88% of total transactions.

Demonstrated Rate-Making Flexibility (Revenue Risk: Price — Stronger): ISTHA has full legal authority to adjust toll rates and demonstrated in the recent past a willingness to implement significant increases when necessary. However, future toll increases, beyond those currently approved, are uncertain. A passenger vehicle toll increase of 88% was implemented in 2012 and an aggregate 60% commercial toll increase was phased in between 2015 and 2017 with CPI-based commercial toll increases thereafter.

Large Capital Plan Partially Debt Funded (Infrastructure Development/Renewal — Midrange): ISTHA is in year eight of a 15-year, $14.2 billion Move Illinois capital program requiring a total of $5.7 billion of new money issuance, with the remainder funded from cash flow supported by recent and future toll increases. The authority's prior $5.7 billion plan is complete, remaining on time and budget, and Move Illinois is similarly on track.

Conservative Debt Profile (Debt Structure — Stronger): All debt is senior lien and fully amortizing. Variable-rate exposure is down to 12% of aggregate debt and fully hedged with multiple counterparties, all rated at least 'A+'. Maximum annual debt service (MADS) is presently $502 million in 2029, but the authority expects MADS to increase to approximately $643 million once all Move Illinois borrowing is complete.

Financial Metrics: ISTHA's $6.2 billion debt burden is large and expected to increase measurably with the capital program. However, leverage is moderate at 3.9x for 2018 and is not expected to increase much higher than 5.5x due to the Move Illinois program. Fitch's rating case projects the debt service coverage ratio (DSCR) to average 2.2x through the medium term, in line with historical performance. Liquidity is strong at more than 1,100 days cash on hand, although this will contract to partly fund the Move Illinois program.

Peer Group

Harris County Toll Road Authority (HCTRA; AA/Stable) and Central Florida Expressway Authority (CFEA; A+ Senior/A Subordinate/Stable) are peers, despite ISTHA's significantly larger annual volume and toll revenue base. ISTHA has higher coverage and lower leverage than CFEA, but lower coverage and higher leverage and capital needs than HCTRA.

Rating Sensitivities

Future Developments that May, Individually or Collectively, Lead to Negative Rating Action:

- Stabilized leverage above 8.0x.
- DSCR falling below 1.8x for a sustained period.
- A persistent rising interest rate environment given ISTHA's vast and prolonged borrowing needs.

Future Developments that May, Individually or Collectively, Lead to Positive Rating Action:

- Given a sizeable, multiyear capital program, upward migration is not likely at this time.

Enterprise Summary

Enterprise Summary Data		Financial Summary Data	
Project Type	Expressway System	Rated Debt Terms	$5.9 billion outstanding with approximately 88% fixed rate.
Project Location	Chicago Metropolitan Service Area	Amortization Profile	Debt service increasing through 2029. MADS will increase to about $643 million from $502 million with additional issuances.
Status	In Operation	Hedging/ Counterparty	$722 million notional, floating to fixed, with various counterparties, all rated at least 'A+'.
Revenue Basis	Volume	Liquidity/Provider	The 2008A bonds have standby BPAs or are under a direct purchase agreement and bond insurance. The 2007A bonds have liquidity and credit support agreements. Overall, four providers are rated at least in the 'A' category.
Applicable Regulation	Bond Resolution, State Law, Trust Indenture	Reserves	DSRF: $486 million, greater than MADS, funded with $386 million cash and securities and $100 million surety.
Operator	Illinois State Toll Highway Authority	Transaction Triggers	Rate Covenant: 1.30x net revenue. ABT: 1.30x net revenue for any 12 consecutive months of the preceding 18 months and for the projected length of the project being financed plus five years.
Technical Advisors	WSP USA		
Traffic Consultant	CDM Smith		

MADS – Maximum annual debt service. BPA – Bond purchase agreement. DSRF – Debt service reserve fund. ABT – Additional bonds test.
Source: Fitch Ratings, Illinois State Toll Highway Authority.

Overview

Transaction Summary

The authority anticipates issuing approximately $300 million of series 2019A senior revenue bonds in late June. The bonds will be fixed rate and on parity with all other tollway bonds. The amortization structure of the revenue bonds is expected to match that of previously issued Move Illinois bonds and will mature in 2043. Bond proceeds will be used to fund the Move Illinois capital improvement plan. The bonds are expected to price the week of June 24, 2019.

Tollway System Profile

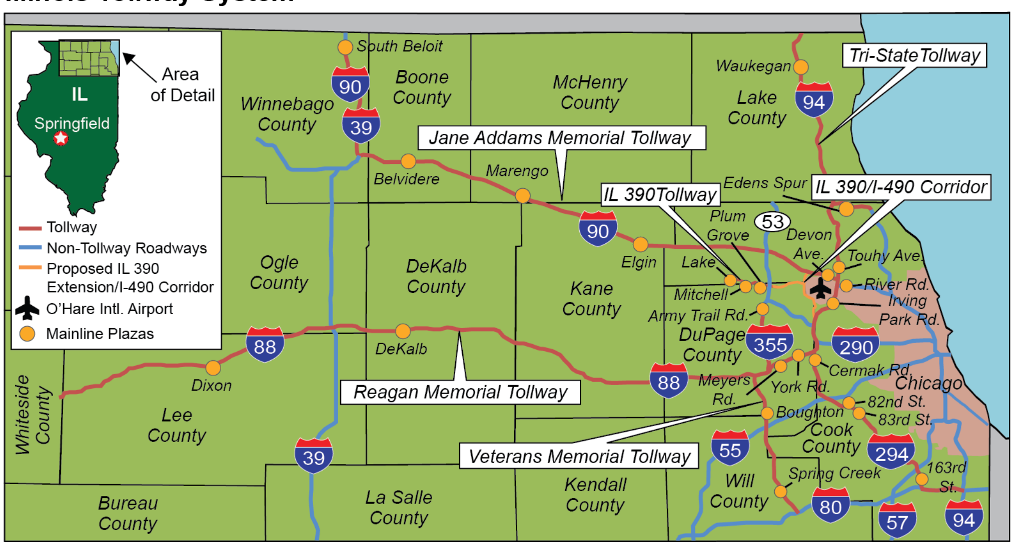
The authority currently operates a five-tollway system consisting of 294 miles (2,281 lane miles) of limited-access toll highways serving 15 counties in Northern Illinois and linking the state with neighboring Wisconsin and Indiana. The estimated population of the service area is 9.8 million, as of 2010, with Cook County and the surrounding five collar counties of Lake, McHenry, DuPage, Kane and Will, serving as the core of the system's economic base. These six counties, along with DeKalb, Grundy and Kendall, make up the remainder of the metropolitan area. According to independent economists, the population of combined Chicago and Rockford MSA Illinois Tollway service area is estimated to grow to 12 million by 2040, equating to growth of 0.7% per year over 30 years.

The Tri-State Tollway, designated variously as I-294, I-94 and I-80, is an 82-mile beltway around Chicago from the Indiana state line to the south to the Wisconsin state line to the north. The Tri-State Tollway contributed approximately 41% of the total system transactions and 46% of total system revenue in 2018.

The Jane Addams Memorial Tollway, which is designated I-90, extends for 76 miles from the junction with the Tri-State Tollway and the Kennedy Expressway near Chicago-O'Hare International Airport (O'Hare) to the Wisconsin state line near the city of Beloit, WI. In addition to O'Hare, the Northwest Tollway serves the cities of Elgin and Rockford, IL, with I-90 continuing north as a toll-free road to Madison, WI. The Jane Addams Memorial Tollway represented approximately 21% of both 2018 total system transactions and revenue.

The Veterans Memorial Tollway, which is designated I-355, begins in the city of Addison, IL, at the intersection of Army Trail Road and I-290 and extends 17.5 miles south, where it joins I-55. The tollway is the second-newest addition to the system, having opened in 1989. A 12.5-mile extension of the route, extending south to I-80, opened to traffic in November 2007. The Veterans Memorial Tollway made up approximately 16% and 17% of 2018 total system transactions and revenue, respectively.

Illinois Tollway System



Source: Illinois State Tollway Highway Authority.

The Reagan Memorial Tollway, designated as I-88, runs for 96.5 miles from the junction with the Tri-State Tollway and I-290 near Oak Brook, IL, to U.S. Route 30. From U.S. Route 30, I-88 is a toll-free facility connecting to I-80 near the Quad Cities on the Illinois-Iowa border. This route serves the Illinois cities of Oak Brook, Naperville, Aurora, DeKalb and Dixon. The tollway represents approximately 14% of both 2018 total system transactions and revenue.

Illinois Route 390, formerly known as the Elgin O'Hare Expressway, is the first all-electronic roadway to open on the tollway system. Toll collection began July 5, 2016 on the western segment of the Illinois Route 390 Tollway from Lake Street (U.S. Route 20) to I-290. The eastern segment of Illinois Route 390 from I-290 East to Illinois Route 83 opened to traffic with all-electronic tolling on Nov. 1, 2017. Illinois Route 390 is the east-west portion of the Elgin O'Hare Western Access Project (EOWA). The EOWA also includes a planned north-south connection from the eastern terminus of Illinois Route 390, connecting I-90 at Elmhurst Road to the north and I-294 near North Avenue to the south, which is planned to be completed by 2026 and expected to be designated as U.S. Interstate Highway 490. Tolling of Illinois Route 390 accounted for less than 8% of expected total system transactions and less than 3% of total system revenue in 2018.

Revenue Risk — Volume

In Fitch's view, the system's proven and resilient traffic base, coupled with relatively modest price elasticity, are key credit strengths. In addition, passenger vehicles, mostly commuter traffic, make up nearly 90% of total traffic on the tollway, adding demand stability. There are limited alternative routes through the metropolitan area and heavy congestion on the few that do exist.

As a result, traffic grew in all but seven years since 1974 with a 20-year CAGR of 1.8% for 1998–2018. More recently, the five-year traffic CAGR is 4.3% as economic recovery continues and benefits of the completed Congestion Relief Program (CRP) are realized. In the first three months of 2019, total traffic declined 1.7% due to bad weather experienced in January, with passenger transactions falling 2.0% and commercial transactions growing a modest 0.7%. Elasticity for both passenger and commercial vehicles remains modest, and the system historically outperformed the traffic consultant's forecast.

Fitch believes this is a mature asset, although the benefits of the completed CRP continue to be realized as the local economy continues to improve. Growth slightly above the longer-term historical average may be achievable in the near to medium term as the Move Illinois capital program advances, with segment widenings and new interchanges. Fitch forecasts a 2.4% 10-year traffic CAGR for 2018–2028 in its base case.

Revenue Risk — Price

Fitch positively views ISTHA's full legal authority to adjust toll rates, although we recognize future toll increases beyond those already approved are uncertain and could be challenging given the political environment in Illinois. Still, Fitch is encouraged by the authority's demonstrated willingness to increase tolls as necessary and, as noted above, the experienced limited elasticity on both passenger and commercial vehicle traffic.

Further, at just $0.067, the ISTHA benefits from one of the lowest passenger toll rates per mile across the U.S., even when factoring in the 88% increase in 2012. While not currently planned, this should afford the authority additional economic rate-making flexibility should traffic underperform and/or expenses exceed forecasts. Fitch anticipates management would take strides to increase toll rates to maintain coverage consistent with the current rating level, should it be necessary.

The current commercial vehicle rate per mile, at $0.549 as of January 2019, is moderate and still competitive under both the median and national average. However, competitiveness diminished slightly from before the toll increases in 2014 as the last of the approved toll rate increases was phased in on Jan. 1, 2017, aggregating to 60% over 2015–2017, with CPI-based annual increases thereafter. As expected, commercial vehicle traffic appears less sensitive to toll rate increases than passenger vehicle traffic on the system.

ISTHA has one of the highest electronic toll collection usage rates in the country at nearly 88% for 2017 with the I-PASS system. This not only lowers collection costs and reduces lost revenue, but also helps with the implementation of toll increases and may desensitize users to future toll increases.

Infrastructure Development and Renewal

Fitch positively views ISTHA's highly developed approach to capital planning. Further, Fitch is encouraged by the authority's track record of delivering substantial capital programs on time and on budget. Additionally, the authority is proactive in raising toll rates, as more than 60% of the current $14.2 billion Move Illinois program will be funded through cash flow, and many of the projects should enhance the revenue-generating capabilities of the system in the future. Still, this leaves a sizeable amount of debt to be issued through 2025, and while the length of the program affords flexibility in timing it could introduce interest rate or cost risk to the extent that rates rise and/or materials and labor become more expensive.

ISTHA uses reputable contractors and relatively conventional construction practices, leading Fitch to believe Move Illinois will be completed satisfactorily. In conjunction with these capital programs and other capital costs, the authority funds a renewal and replacement account based on the annual review of current needs by an independent engineer consultant. Since 1999, more than $3 billion has been deposited to the account.

Move Illinois

The 15-year, $14.2 billion Move Illinois capital program began in 2012, building on the improvements accomplished under the completed CRP. The main goals are to maintain the existing system in a state of good repair and to enhance regional mobility through several new projects.

Primary objectives include:

- Reconstructing and widening the Jane Addams Memorial Tollway (I-90) from the Tri-State Tollway (I-294) near O'Hare to the I-39 interchange in Rockford.
- Reconstructing the central Tri-State Tollway (I-294) from 95th Street to Balmoral Avenue and the Edens Spur (I-94).
- Preserving the Reagan Memorial Tollway (I-88) and the Veterans Memorial Tollway (I-355).
- Repairing roads, bridges and maintenance facilities.
- Constructing a new interchange at I-294/I-57 and 147th Street ramps.
- Constructing the EOWA, including completion of Illinois Route 390 (formerly the Elgin-O'Hare Expressway) and construction of the West Bypass between I-90 and I-294.
- Planning for transit options on the Jane Addams Memorial Tollway, the Illinois Route 53 Corridor and other routes as determined by the board of directors.

Move Illinois will take the system from 284-centerline miles, or 2,044 total lane miles, in 2012, to 301-centerline miles, or 2,410 total lane miles, by 2026. An additional $2.6 billion in new money bonds are expected to be issued through 2025. The program is progressing on time and budget to date.

Move Illinois Program Estimated Expenditures

($ Mil.)	
2012	108.2
2013	502.2
2014	886.7
2015	1,239.2
2016	985.2
2017	747.0
2018	929.1
2019	1,370.5
2020	1,314.6
2021	1,250.5
2022	1,118.2
2023	920.0
2024	1,263.2
2025	887.2
2026	681.9
Total	**14,203.7**

Source: WSP USA.

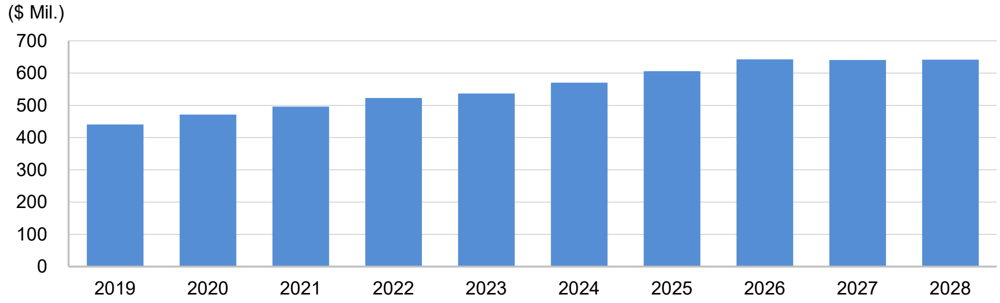
Financial Analysis

Debt Structure

Debt is all senior lien and fully amortizing. However, the profile is forecast to escalate through 2026, reaching MADS of an estimated $643 million in 2029, after all Move Illinois bonds are issued, against current annual debt service of $423 million in 2018. Fitch views ISTHA's strides to reduce a variable-rate position as a positive. Presently, the tollway's debt structure is approximately 88% fixed rate, with the 12% variable portion notably down from 40% in 2009. However, while the variable-rate debt is fully hedged through swaps, the bank counterparties are rated below the authority's own debt rating. The series 2019A issuance should further strengthen the authority's debt structure by reducing its percentage of variable-rate debt and associated counterparty swap exposure.

Fitch favorably views the debt service reserve funding requirement of MADS. However, $100 million of the requirement is being satisfied with a surety from Berkshire Hathaway Assurance Corporation. While there is no intention to replace this surety with cash at present, the authority plans to cash fund all future reserve requirements as it issues additional Move Illinois bonds.

Projected Annual Debt Service Profile
(Including All Move Illinois Issuances)



Source: Illinois State Toll Highway Authority.

Fitch Base Case

Fitch was provided ISTHA's cash flow model incorporating assumptions developed in conjunction with the traffic and revenue consultant and the consulting engineer. In developing its own base and rating cases, we reviewed these assumptions and used them as an input, along with other materials, including Fitch sovereign and regional economic expectations and Fitch's views on the toll roads sector, in particular.

Analyzing the tollway's historical operating expense growth and an updated forecast by the authority, Fitch concluded a 4.5% expense CAGR through the 2028 forecast window was appropriate for our base case. The base case incorporates a slightly more modest volume growth rate, with transactions growing at a CAGR of 2.4% compared to the 2.6% annual growth forecast in the authority's case. This was largely the result of the effects of more sluggish economic growth on commercial traffic and slightly lower induced passenger vehicle transactions from new interchanges.

Toll revenue grew at a 3.0% CAGR compared with 3.2% in the authority case, resulting in a minimum DSCR of 2.1x with an average of 2.3x. Leverage on a net debt/cash flow available for debt service basis, including all planned debt for the Move Illinois program, peaks at 5.5x in 2022 but falls to less than 5.0x by 2027.

Fitch Rating Case

Fitch's rating case assumes a 50bps stress to expenses for a CAGR of 5.0% through 2028. Traffic growth is assumed to be more tepid than the base case as transactions grow at a lesser 1.8% CAGR. Toll revenue, therefore, grows at a 2.4% CAGR, resulting in a minimum DSCR of 2.0x and an average of 2.2x through 2028. Leverage peaks at a slightly higher 5.7x in 2022 and falls to 4.8x by 2028. These metrics reflect the Tollway's assumption of no further passenger toll increases and the assumption the commercial vehicle toll rate grows at CPI, estimated at approximately 2% per year. Under these assumptions, the metrics remain commensurate with the current 'AA' category rating for a large mature network.

Fitch Break-Even Analysis

Fitch ran a revenue break-even sensitivity analysis to gauge how much growth the system would need from the 2018 operating revenue level each year through 2048 so that coverage in each year would never fall below 1.0x, including the exhaustion of available liquidity. This was done given the authority's need for additional leverage and the escalating and growing debt service profile. Fitch's analysis may be conservative, as it used an unrestricted cash balance equal to annual operating expenses, while the authority historically maintains more than three years of days cash on hand. However, the authority may spend some of that cash balance down as it progresses with Move Illinois.

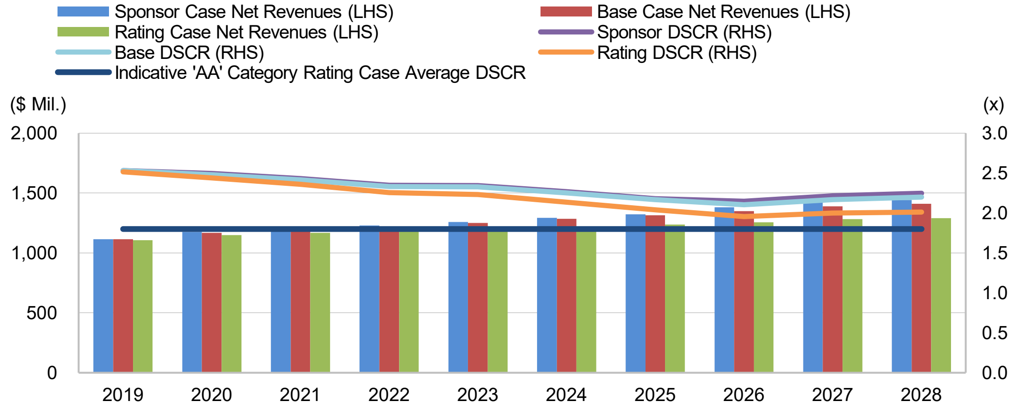
The sensitivity analysis showed no dependence on future growth was needed to maintain 1.0x coverage in either case with revenue break-evens of negative 0.5% and negative 0.1% average annual revenue growth in the base case and rating case, respectively. The lack of dependence on growth, even when taking into account the full Move Illinois borrowing program, is again consistent with the 'AA' category rating for a large, mature network.

2019–2028 Assumptions and Metrics

	Authority	Base	Rating
Transaction CAGR (%)	2.6	2.4	1.8
Toll Revenue CAGR (%)	3.2	3.0	2.4
Operating Expense CAGR (%)	4.5	4.5	5.0
Minimum DSCR (x)	2.2	2.1	2.0
Average DSCR (x)	2.3	2.3	2.2
Maximum Net Debt/CFADS (x)	5.5	5.5	5.7
Average Net Debt/CFADS (x)	5.1	5.2	5.4
Break-Even Revenue Growth (Through 2048, %)		-0.5	-0.1
MADS DSCR (Using Estimated 2019 CFADS, x)			1.7

DSCR – Debt service coverage ratio. CFADS – Cash flow available for debt service. MADS – Maximum annual debt service.
Source: Fitch Ratings, Illinois State Toll Highway Authority.

2019–2028 Projected Net Revenues and DSCR



DSCR – Debt service coverage ratio.
Source: Fitch Ratings, Illinois State Toll Highway Authority.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.