



Fitch Rates Illinois State Toll Highway Auth's Series 2019C Sr Revenue Bonds 'AA-'; Outlook Stable

Fitch Ratings - Austin - 02 December 2019:

Fitch Ratings has assigned a 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately \$700 million of series 2019C senior revenue refunding bonds. The Rating Outlook is Stable.

RATING RATIONALE

Summary: 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 (DSCR) with a major capital program underway. The potential risks posed by ISTHA's large capital program are largely mitigated by a history of delivering capital programs on time and under budget, a very robust balance sheet position, and an already implemented 60% aggregate commercial toll increase phased in from 2015-2017, which complements the 88% passenger vehicle toll increase in 2012.

KEY RATING DRIVERS

ESSENTIAL ROAD NETWORK WITH STABLE DEMAND (Revenue Risk: Volume - Stronger)

The tollway system provides critical transportation links that serve the Chicago and northern Illinois metropolitan area providing key connections to interstate highways. Toll transactions have grown nearly every year since 1974; the 2013-2018 CAGR of 4.3% reflects consistent growth of both commercial and passenger vehicles. 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, that accounts for nearly 88% of total transactions.

DEMONSTRATED RATE-MAKING FLEXIBILITY (Revenue Risk: Price - Stronger)

While ISTHA has full legal authority to adjust toll rates and has demonstrated in the recent past a willingness to implement significant increases when necessary, 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 2015-2017, with CPI-based annual increases to commercial tolls thereafter.

LARGE CAPITAL PLAN PARTIALLY DEBT FUNDED (Infrastructure Development/Renewal - Midrange)

ISTHA is in the eighth year of its 15-year, \$14.3 billion MOVE Illinois capital program. Funding is expected to come from \$5.5 billion of new money debt issuances (\$3.1 billion of which has already been issued) with the remainder from cash flow, supported by recent and future toll increases as well as the implementation of a new

video toll fee effective as of February 2018. The authority completed its previous capital program, the \$5.7 billion congestion relief program (CRP), on time and under budget, and MOVE Illinois is similarly proceeding according to plan.

CONSERVATIVE DEBT PROFILE (Debt Structure - Stronger)

All debt is senior lien and fully amortizing. Subject to market conditions, the current refunding is expected to partially or fully eliminate the Authority's variable rate debt, which presently accounts for approximately 12% of outstanding debt. Maximum annual debt service (MADS) is currently estimated to be \$500 million in 2029 but is forecast by the authority to increase to approximately \$624 million after all MOVE Illinois borrowing is taken into account.

Financial Metrics: The current tollway system's \$6.2 billion debt burden is expected to increase measurably to \$7.7 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 3.9x for fiscal 2018 and is not expected to increase higher than 5.5x as a result of the MOVE Illinois program. DSCR has historically been above 2.0x, including over 2.5x since fiscal 2015. Fitch's rating case projects DSCR to average 2.3x through the next 10 years. Strong liquidity of over 1,100 days cash on hand as of fiscal 2018 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 (CFEA, A+ Senior/A Subordinate/Stable), despite a significantly larger annual volume and toll revenue base for ISTHA. The authority has higher coverage and lower leverage than CFEA but lower coverage and higher leverage and capital needs when compared to HCTRA, which largely explains its rating relative to these peers.

RATING SENSITIVITIES

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

--Given the authority's sizeable, multi-year capital program, upward migration is not likely at this time.

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

--DSCR falling below 1.8x for a sustained period;

--A persistent, rising interest rate environment given the authority's vast and prolonged borrowing needs.

TRANSACTION SUMMARY

The authority expects to issue up to approximately \$700 million of fixed-rate senior toll revenue bonds to refund a portion or all of the outstanding variable-rate series 2007A and 2008A bonds, subject to market conditions. The amortization structure of the refunding bonds is expected to approximately match that of the refunded

bonds and will not extend the final maturity. Modest dissavings of approximately \$24 million are estimated on a net present value basis if all series 2007A and 2008A bonds are refunded. The refunding will potentially eliminate all variable rate debt. The bonds are expected to price by mid-December.

CREDIT UPDATE

Performance Update

For the first nine months of fiscal 2019, passenger transactions are up 0.5% while commercial transactions are up 1.8% compared to the same period last year. Toll revenues are up 2.0% over the same period. Management attributes the slower growth in passenger transactions to bad weather experienced in January, and does not expect the trend to continue. Year-to-date both revenues and expenses are closely tracking budget and DSCR is forecast to be approximately 2.7x, consistent with historical levels.

FINANCIAL ANALYSIS

Fitch Cases

Under Fitch's base case scenario, which assumes more tempered traffic growth than the authority's projections (Fitch assumed a 2.4% CAGR between 2019 and 2028) but similar operating expense assumptions (CAGR of 4.5%), 10-year DSCR averages 2.4x and never drops below 2.0x assuming no further passenger car toll rate increases. This scenario includes another anticipated \$2.4 billion in new money bonds for the MOVE Illinois program with a majority borrowed at a 5.0% rate, which Fitch believes is a reasonable rate assumption. Despite debt outstanding growing to \$7.7 billion by the end of the program, leverage remains fairly constant, peaking at 5.4x.

Fitch's rating case assumes more conservative traffic growth as well as a less positive impact on transactions from MOVE Illinois capital improvements such that total traffic grows at a 1.8% CAGR between 2018 and 2028. Expenses are also assumed to 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 2.3x and remains above 2.0x. Leverage peaks slightly higher at 5.5x but still remains within the bounds for a large, mature network in the 'AA' rating category.

Fitch also conducted breakeven analyses to determine what growth in revenue would be needed in both the base and rating case to produce DSCR of at least 1.0x using 2018 revenue. Both scenarios indicated no dependence on future growth with revenue breakevens of -0.5% average annual revenue growth in the base case and -0.1% in the rating case. Positively, these negative growth rates are despite the authority's increasing operating expense and debt service profiles.

In addition, Fitch analysed MADS coverage using projected 2019 CFADS from its rating case and coverage is a strong 1.8x, again indicating no reliance on growth as the 2019 CFADS could more than 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.

For more information please refer to "Fitch Rates Illinois State Toll Highway Auth's Series 2019A Sr Revenue Bonds 'AA-'; Outlook Stable" published May 30, 2019, and "Fitch Rates Illinois State Toll Highway Auth's Series 2019B Sr Revenue Bonds 'AA-'; Outlook Stable" published Oct 22, 2019. Available on www.fitchratings.com

Date of Relevant Committee

28-May-2019

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RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Illinois State Toll Highway Authority (IL)			
Illinois State Toll Highway Authority (IL) /Toll Revenues/1 LT	LT AA- ● Affirmed		AA- ●

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)

Additional Disclosures

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