S&P Global Ratings

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Summary:

Illinois State Toll Highway Authority; Toll Roads Bridges

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Credit Profile		
US$700.0 mil toll hwy sr rev bnds (rfdg) ser 2019C due 01/01/2031		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Illinois State Toll Highway Authority's (ISTHA or the authority) pro forma $700.5 million series 2019C toll highway revenue refunding bonds. The outlook is stable.

The rating reflects the combination of the authority's very strong enterprise risk and financial risk profiles, and the ISTHA's significant near-term debt needs. Our enterprise risk profile assessment incorporates the authority's strong traffic trends (despite toll rate increases) due to its important role and strategic location, and the lack of significant competition from toll-free roads. Our financial risk profile assessment considers the ISTHA's strong revenue growth from recent toll rate increases, and favorable traffic trends are due to the authority's sizable and resilient demand base historically that we expect will continue. This will allow the authority to maintain strong financial performance and a very strong capacity to manage its increasing debt service requirements, with level debt service not occurring until 2026.

The very strong enterprise risk profile reflects our view of the ISTHA's:

- Very strong market position due to the toll road's strong demand characteristics given its 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 nontolled alternatives;
- Extremely strong service area economic fundamentals, which include favorable economic activity as measured by GDP per capita, a large population base, below-average expected population growth, and average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals, detailed financial forecasts that management updates frequently to address material variances, and very capable staff that has considerable experience operating a statewide tolling agency.

The very strong financial risk profile reflects our view of the ISTHA's:

- Strong financial performance that we expect to continue due to the authority's history of strong revenue growth from its willingness and ability to increase toll rates annually and the toll road's favorable traffic trends that, in our view, will allow the ISTHA to maintain total debt service coverage (DSC; S&P Global Ratings-calculated) at or near

2x;

- Very strong debt and liabilities capacity that we expect will continue as the authority counters rising debt service requirements from additional near-term borrowings with additional revenue from scheduled commercial vehicle toll increases, ensuring that its capacity to service its debt will not diminish; and
- Very strong liquidity and financial flexibility, based on our expectation that the ISTHA's liquidity position--972 days' cash on hand and 17% of debt in fiscal 2018--will remain near current levels; the authority plans to cash-fund portions of its capital improvement plan (CIP), which will include the drawing down of a portion of current unrestricted reserves offset by the addition of excess cash flow on an annual basis.

Tollway system net revenue secure the bonds, and post-issuance, the authority will have $6.1 billion of revenue bonds outstanding, all of which are expected to be fixed rate. The 2019C bond proceeds will refund all or a portion of the authority's series 2007A and 2008A variable rate and synthetically fixed bonds, to fund costs of terminating interest rate swap agreements associated with #the refunded bonds, and to pay issuance costs.

The authority has no junior-lien debt. Overall, we view the bond provisions as credit neutral. They include a 1.3x rate covenant and an additional bonds test (ABT) that calls for net revenue at least at the rate covenant for 12-consecutive months of the most recent 18; any toll adjustments within the 12 months preceding the bond issuance may be retroactively applied to the full 12-month period.

The Illinois Tollway, governed by an 11-member board of directors, operates 294 miles of interstate tollways located 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 46% of system revenue and about 45% of system transactions, while the remaining three (not including the recently opened Illinois Route 390) are about evenly split.

The U.S. Court of Appeals for the First Circuit decision affirming a lower court's ruling that payment of Puerto Rico Highways and Transportation Authority's special revenue-secured debt is voluntary, and not required, during bankruptcy, has generated significant market attention. At this time, that decision is technically the only binding precedent for cases brought in the First Circuit, which does not include Illinois. In addition, we believe our rating on the authority is supported by significant constitutional and statutory protections that insulate the ISTHA's financial resources from related government intervention from the state of Illinois as well as our opinion of near-term credit stability with regard to the state general obligation rating.

Despite being an administrative agency of the state, the tollway 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. Its 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, to pay ISTHA expenses as they become due and to submit 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 should prevent the state from diverting tollway revenue for nontollway purposes. While the state could become motivated to take steps to rewrite, eliminate, or even ignore such protections in 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, if the state's financial situation materially weakens it could cause downward pressure on the ratings on ISTHA's bonds since, in our opinion, the likelihood of the state diverting authority revenue for non-ISTHA purposes increases.

For more information on the authority, see our full analysis published Oct. 22, 2019, on RatingsDirect.

Outlook

The stable outlook reflects our expectation that, over the next two years, the ISTHA will continue to manage its operations and capital program effectively while maintaining DSC levels near 2x.

Downside scenario

Although unlikely, we could lower the rating during the outlook period if the ISTHA's DSC or liquidity declines materially below our expectations. In addition, we may lower the ratings or revise the outlook to negative if the Illinois legislature attempts to weaken statutes or state constitutional provisions protecting the ISTHA or takes other actions that we believe could impair the authority's ability to operate the tollway, or the state credit rating is facing downward pressure.

Upside scenario

We also consider it unlikely that we will raise the rating within the two-year outlook period, given the authority's significant additional debt needs.