# Illinois State Toll Highway Authority

## Toll Highway Senior Revenue Bonds

**New Issue**

### Ratings

**New Issues**

| | |
|---|---|
| $430,000,000 Toll Highway Senior Revenue Refunding Bonds, Series 2018A | AA– |

**Outstanding Debt**

| | |
|---|---|
| $6,087,985,000 Senior Revenue Bonds | AA– |

### Rating Outlook

Stable

### 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 2018A Sr Refunding Bonds 'AA-'; Outlook Stable (November 2018)

Fitch Affirms Illinois State Toll Highway Authority's Revs at 'AA-'; Outlook Stable (August 2018)

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## Key Rating Drivers

**Summary:** The Illinois State Toll Highway Authority's (ISTHA, or the authority) '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 $2.9 billion in debt. Mitigating factors include a history of delivering capital programs on time and on budget, a robust balance sheet, and already implemented commercial and passenger vehicle toll increases.

**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 4.4% 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 increases thereafter.

**Large Capital Plan Partially Debt Funded (Infrastructure Development/Renewal — Midrange):** ISTHA is in year seven of a 15-year, $14.3 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 substantially 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 19% of aggregate debt and fully hedged with multiple counterparties, all rated at least 'BBB+'. Maximum annual debt service (MADS) is presently $486 million in 2030 but the authority expects MADS to increase to approximately $642 million once all MOVE Illinois borrowing is complete.

**Financial Metrics:** ISTHA's $6.1 billion debt burden is large and expected to increase measurably with the capital program. However, leverage is moderate at 4.0x for 2017 and is not expected to increase much higher than 5.8x 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 1,400 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 | $6.1 billion outstanding with approximately 81% fixed rate. |
| Project Location | Chicago, IL Metropolitan Service Area | Amortization Profile | Debt service increasing through 2030. MADS will increase to about $642 million from $486 million with additional issuances. |
| Status | In Operation | Hedging/Counterparty | $1.2 billion notional, floating to fixed, with various counterparties, all rated at least 'BBB+'. |
| Revenue Basis | Volume | Liquidity/Provider | The 2008A bonds have standby BPAs and bond insurance. The 2007A bonds have liquidity and credit support agreements. Overall six providers are rated at least in the 'A' category. |
| Applicable Regulation | Bond Resolution, State Law, Trust Indenture | Reserves | **DSRF:** $490 million, greater than MADS, funded with $390 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: ISTHA, Fitch Ratings.

## Overview

### Transaction Summary

The authority anticipates issuing approximately $430 million of series 2018A senior revenue refunding bonds in mid-December. The bonds will be fixed rate and on parity with all other tollway bonds. The amortization structure of the refunding bonds is expected to approximately match that of the refunded bonds and will not extend the final maturity (2031). Bond proceeds will partially be used to refund up to $78 million of certain callable maturities of series 2009A bonds to generate debt service savings. Proceeds will also go toward refunding roughly one-third of the authority's $1.2 billion of synthetic fixed rate bonds (series 2007A and 2008A) and be used to fund termination payments for the associated swaps. The refunding of the series 2009A bonds is expected to generate modest net present value savings, while the refunding of a portion of the series 2007A and 2008A bonds is aimed at reducing the amount of third-party liquidity support the authority is required to maintain. The bonds are expected to price around Nov. 29, 2018.

## Tollway System Profile

The authority currently operates a five-tollway system consisting of 294 miles (2,278 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 is expected to contribute approximately 41% of the total system transactions and 46% of total system revenue in 2018.

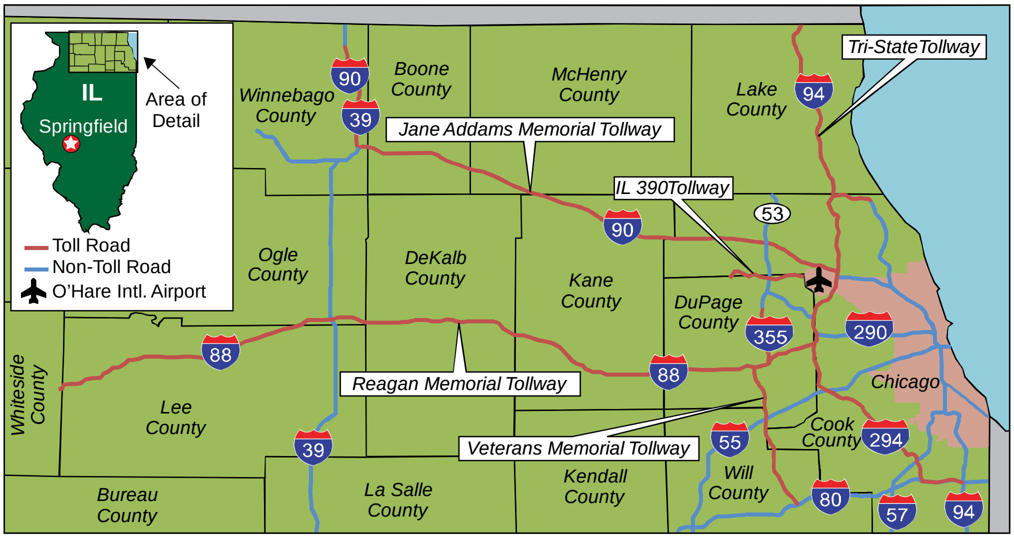
The Jane Addams Memorial Tollway, which is designated I-90, extends for 76 miles from the junction with the Tri-State Tollway and the Kennedy Expressway near Chicago-O'Hare International Airport (O'Hare) to the Wisconsin state line near the city of Beloit, WI. In addition to O'Hare, the Northwest Tollway 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 represents approximately 21% of both 2018 expected 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 expected total system transactions and revenue, respectively.

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 expected 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. The Elgin O'Hare Western Access Project 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 expected total system revenue in 2018.

**Illinois Tollway System**




Source: ISTHA.

## 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, the resilience of passenger vehicle, mostly commuter traffic, making up nearly 90% of total traffic on this essential system affords the tollway 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 1.6% for 1997–2017. More recently, the five-year traffic CAGR is 4.4% as economic recovery continues and benefits of the substantially complete Congestion Relief Program (CRP) are realized. Further, traffic continues to perform well into 2018, up another 2.6% YTD for the first eight months through August with growth from both passenger and commercial vehicles, albeit much stronger for commercial vehicles (6.7%). Elasticity for both passenger and commercial vehicles remains modest and the system has historically outperformed the traffic consultant's forecast impact.

Fitch believes this is a mature asset, although the benefits of the substantially complete 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 2.1% 10-year CAGR for 2017–2027 in the base case.

## Revenue Risk — Price

Fitch views positively 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, the authority demonstrated willingness to increase tolls as necessary and, as noted above, 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 $0.531 as of January 2018, 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 views positively ISTHA's highly developed approach to capital planning. Further, Fitch takes comfort in 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 $14.3 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.

### Congestion-Relief Program

In September 2004, and as subsequently amended in 2007, the authority approved a $6.3 billion comprehensive plan to modernize and rebuild the then 45-year old roadway system to reduce congestion and improve service. The CRP included rebuilding or restoring a majority of the Illinois tollway system, providing congestion relief by converting mainline toll plazas to barrier-free open road tolling, widening many miles of existing roads, and extending I-355 12.5 miles south from I-55 to I-80.

### Congestion-Relief Program: Estimated Program Draws

($ Mil.)

| | |
|---|---|
| 2005–2017 | 5,683.6 |
| 2018 | 6.3 |
| **Total** | **5,689.9** |

Source: WSP USA.

Through the program, the Illinois tollway underwent rehabilitation and resurfacing to bring the entire 286-centerline mile system into a state of good repair. The budget was revised down to $5.7 billion and the CRP is now substantially complete, with minimal remaining expenditures in 2018 to close out the program and no additional bonding needs. The authority delivered the program on time and slightly under budget. The CRP helped bring the tollway's electronic tolling rate up to approximately 88% from 39% in 2003 and the system had 78% of lane miles with more than eight years remaining pavement service life for 2017 compared with just 5% in 2004 before CRP began.

### MOVE Illinois

The 15-year, $14.3 billion MOVE Illinois capital program began in 2012, building upon the improvements accomplished under the 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.

### MOVE Illinois Program: Estimated Program Expenditures

| ($ Mil.) | |
|---|---|
| 2012 | 108.2 |
| 2013 | 502.2 |
| 2014 | 886.7 |
| 2015 | 1,239.2 |
| 2016 | 985.2 |
| 2017 | 747.0 |
| 2018 | 1,173.5 |
| 2019 | 1,407.2 |
| 2020 | 1,093.5 |
| 2021 | 1,214.0 |
| 2022 | 1,104.8 |
| 2023 | 842.3 |
| 2024 | 1,227.9 |
| 2025 | 944.9 |
| 2026 | 727.1 |
| **Total** | **14,203.7** |

Source: WSP USA.

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 Elgin O'Hare Western Access, 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.

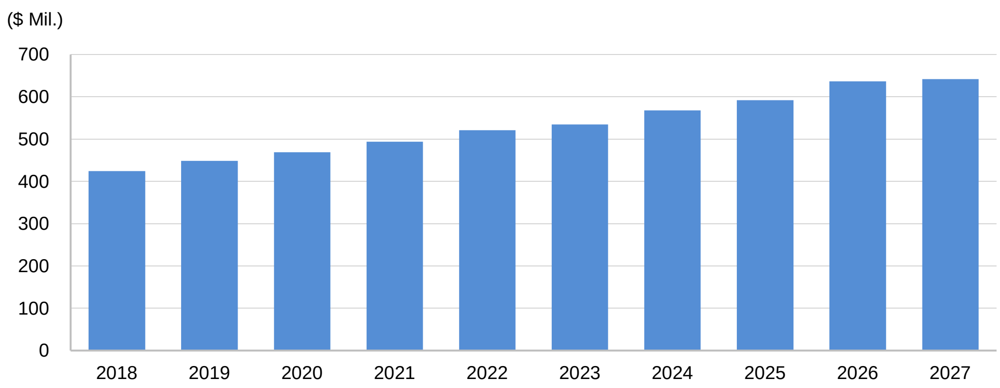
MOVE Illinois will take the system from 284-centerline miles, or 2,044 total lane miles, in 2012, to 301-centerline miles, or 2,410 total lane miles, by 2026. An additional approximately $3 billion in new money bonds are expected to be issued through 2025. The program is progressing on time and budget to date.

## 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 $642 million in 2037, after all MOVE Illinois bonds have been issued, against current annual debt service of $424 million in 2018. Fitch views positively ISTHA's strides to reduce a variable-rate position. Presently, the tollway's debt structure is approximately 81% fixed rate, with the 19% variable portion notably down from 40% in 2009. However, while the variable-rate debt is fully and perfectly hedged through swaps, many of the bank counterparties are rated below the authority's own debt rating. The series 2018A issuance should further strengthen the authority's debt structure by reducing its variable rate position and associated counterparty swap exposure.

**Projected Annual Debt Service Profile**
(Including All MOVE Illinois Issuances)




Source: ISTHA.

Fitch views favorably 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.

### Fitch Base Case

Fitch was provided a sponsor-case 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 sponsor, Fitch concluded a 4.6% CAGR through the 2027 forecast window was appropriate for the base case. The base case incorporates a slightly more modest volume growth rate, with transactions growing at a CAGR of 2.1% against the 2.6% annual growth forecast in the sponsor 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 2.5% CAGR against 3.1% in the sponsor case, resulting in a minimum DSCR of 2.0x 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 an approximate 50bps stress to expenses as the CAGR is 5.1% through 2027. Traffic growth is assumed to be more tepid than the base case as transactions grow at a lesser 1.6% CAGR. Toll revenue, therefore, grows at a 2.0% CAGR, resulting in a minimum DSCR of 1.9x and an average of 2.2x through 2027. Leverage peaks at a slightly higher 5.8x in 2024 and falls to 5.4x by 2027. These metrics reflect the sponsor assumption of no further passenger toll increases and the assumption the commercial vehicle toll rate grows at CPI, or 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 an estimated 2018 operating revenue level each year through 2041 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 Tollway may spend some of that cash balance down as it progresses with MOVE Illinois.

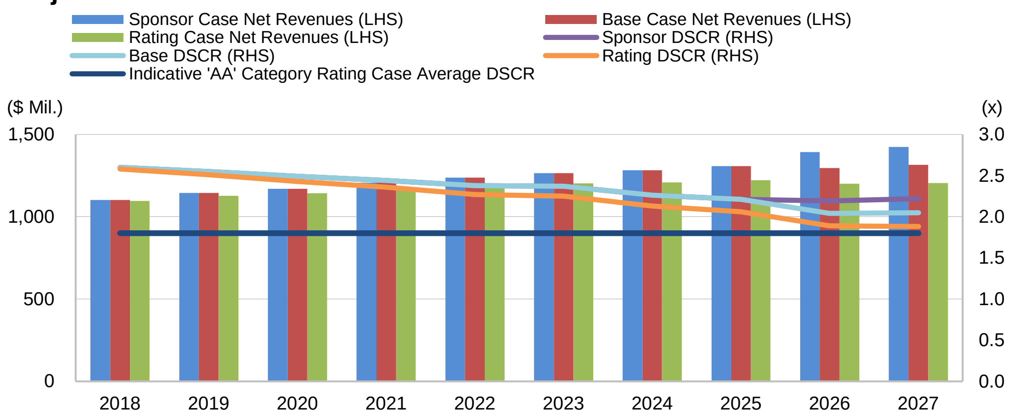
The sensitivity analysis showed no dependence on future growth was needed to maintain 1.0x coverage in either case with revenue break-evens of negative 0.7% and negative 0.4% average annual revenue growth in the base case and rating case, respectively. The lack of dependence on growth, even when taking into account the full MOVE Illinois borrowing program, is again consistent with the 'AA' category rating for a large mature network.

## 2018–2027 Assumptions and Metrics

| | Sponsor | Base | Rating |
|---|---|---|---|
| Transaction CAGR (%) | 2.6 | 2.1 | 1.6 |
| Toll Revenue CAGR (%) | 3.1 | 2.5 | 2.0 |
| | | | |
| Operating Expense CAGR (%) | 4.6 | 4.6 | 5.1 |
| | | | |
| Minimum DSCR (x) | 2.2 | 2.0 | 1.9 |
| Average DSCR (x) | 2.4 | 2.3 | 2.2 |
| | | | |
| Maximum Net Debt/CFADS (x) | 5.5 | 5.5 | 5.8 |
| Average Net Debt/CFADS (x) | 5.2 | 5.2 | 5.5 |
| | | | |
| Break-Even Revenue Growth (Through 2041, %) | | -0.7 | -0.4 |
| | | | |
| MADS DSCR (Using estimated 2018 CFADS, x) | | | 1.7 |

DSCR – Debt service coverage ratio. CFADS – Cash flow available for debt service. MADS – Maximum annual debt service.
Source: ISTHA, Fitch Ratings.

### Projected Net Revenues and DSCR — 2018–2027




DSCR – Debt service coverage ratio.
Source: ISTHA, Fitch Ratings.

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.