

# **FITCH RATES ILLINOIS STATE TOLL HIGHWAY AUTH'S SERIES 2019A SR REVENUE BONDS 'AA-'; OUTLOOK STABLE**

Fitch Ratings-Chicago-30 May 2019: Fitch Ratings has assigned an 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately \$300 million of series 2019A senior revenue bonds. In addition, Fitch has affirmed the 'AA-' rating on ISTHA's \$5.9 billion of outstanding toll highway senior revenue bonds. The Rating Outlook on all bonds is Stable.

## **KEY RATING DRIVERS**

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.

## **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 \$5.7 billion of new money debt issuances (\$2.8 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. Further, ISTHA has taken steps to stabilize its capital structure evidenced by reducing its variable rate exposure to approximately 12% of aggregate debt and fully hedging its interest costs through swaps with multiple financial counterparties, all rated at least 'A' category by Fitch. Maximum annual debt service (MADS), including the series 2019A bonds, is currently estimated to be \$502 million in 2029 but is forecast by the authority to increase to approximately \$643 million after all MOVE Illinois borrowing is taken into account.

Financial Metrics: The current tollway system's \$5.9 billion debt burden is expected to increase measurably to \$8.0 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 projections indicate DSCR should average 2.2x 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 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.

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.

#### TRANSACTION SUMMARY

The authority is issuing its eighth series of new money bonds in the amount of \$300 million for the \$14 billion MOVE Illinois, 15-year capital program. These bonds are fixed-rate with a final maturity of Jan. 1, 2044 and are expected to price the week of June 10 or 18, 2019. Proceeds will go towards project costs and to cash-fund the debt service reserve. The debt service profile is being structured to wrap around existing debt service, with an estimated \$12 million amortizing in 2036-2038 and the remaining \$288 million amortizing from 2039-2044. Fitch expected this issuance, and it has already been factored into prior analysis.

#### Performance Update

While annual transactions were only modestly higher, with a 1.2% increase in fiscal 2018, system toll revenues continue to demonstrate sound annual increases by rising 2.4% from fiscal 2017. Commercial traffic grew 5.2% proving resilient to the inflationary toll increase, and passenger traffic was relatively flat at less than 1.0% growth. Management attributes the weaker passenger growth to construction impacts on the Reagan Memorial Tollway and the Veteran Memorial Tollway, the latter of which included construction that was not previously budgeted for fiscal 2018. Going forward, the tollway system will continue to benefit from annual inflationary increases to their commercial toll rates, and there are no scheduled increases to the passenger toll rates.

For the first three months of fiscal 2019, transactions are down 1.7% and revenues are flat compared to the same period last year. Management attributed this decline to bad weather experienced in January, and does not expect the trend to continue.

Despite increased debt service obligations from MOVE Illinois borrowings, DSCR remained robust at 2.6x in 2018 as a result of strong revenue growth and moderately increasing operating expenses (grew 5.3%). Coverage exceeded Fitch's base case projection of 2.5x but is expected to temper somewhat as the additional operational and debt service costs of the MOVE Illinois program advance.

Through 2019, around \$6.7 billion will have been invested by the Illinois Tollway since the Move Illinois Program began in 2012. The 15-year nature of the program allows flexibility in timing and funding should it become necessary, but the project remains on schedule and on budget.

#### 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 2.3x and never drops below 2.0x assuming no further passenger car toll rate increases. In addition to the new issuance, this scenario includes another anticipated \$2.6 billion in new money bonds for the MOVE Illinois program with a majority borrowed at a 5.5% rate, which Fitch believes is a reasonable rate assumption. Despite debt outstanding growing to \$8.0 billion by the end of the program, leverage remains fairly constant, peaking at 5.5x.

Fitch's rating case assumes greater price elasticity to the toll increases for commercial traffic 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 2.2x and remains above 1.9x. Leverage peaks slightly higher at 5.7x 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 1.7x, 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.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)

<https://www.fitchratings.com/site/re/10038532>

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)

<https://www.fitchratings.com/site/re/10038900>

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