

Rating Action: Moody's revises the outlook for Illinois State Toll Highway Authority to negative

15 Apr 2020

New York, April 15, 2020 -- Moody's Investors Service has revised the outlook on the Illinois State Toll Highway Authority (ISTHA or the authority) to negative from stable. The A1 rating on \$6.049 billion of Toll Highway Senior Revenue Bonds has been affirmed.

RATINGS RATIONALE

The rating action was prompted by the coronavirus outbreak in the US and its impact on the authority and the State of Illinois (Baa3 negative outlook). The negative outlook reflects the relationship between the state and ISTHA, the authority's potential exposure to further deterioration in the state's credit and the powers a state could invoke in times of fiscal stress. These powers include actions that could impact financial matters at separately managed agencies. With respect to ISTHA, Moody's notes that the toll authority does not rely on state funding and that strong protections exist in its authorizing legislation, master trust indenture and the Illinois Constitution. Moody's notes the five notches of rating differential between ISTHA and the state is unlikely to widen.

ISTHA maintains a very strong market position characterized by the essential nature of its tollway system. ISTHA serves one of the largest population bases and diverse economies in the nation. Historically, strong traffic and revenue trends through toll increases and state-level fiscal stress demonstrate the inelastic demand for the tollway system roadways and limited impacts of competition. Consequentially, the authority's credit profile remains strong. Moody's calculates that ISTHA could withstand an approximately 56% reduction in operating revenues in FY 2020 while still maintaining its ability to pay debt service, without additional liquidity or accessing its debt service reserve fund. The authority has more than 1,000 days cash on hand, which could provide an additional 20 months of coverage, though it should be noted that the authority targets to use a portion of its cash on hand to fund a portion of its capital program.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

RATING OUTLOOK

The negative outlook reflects increased credit pressure on the state as well as the assumption of materially lower toll revenues in 2020 due to the coronavirus outbreak.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Upgrade of the state's rating
- Traffic and revenue that significant exceed current projection

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration of the state's credit profile
- Attempts by the state to divert ISTHA funds to non-authority purposes
- Traffic and revenues fall significantly short of current projections for a sustained period
- DSCRs consistently falling below 1.5x on a Moody's net revenue basis
- ssuance of additional debt to fund other projects without offsetting toll rate increases or revenue growth, or that results in lower DSCRs or liquidity- Adjusted debt to operating revenues above 7.0x

- Liquidity below 180 days cash on hand

LEGAL SECURITY

The bonds are secured by the net revenues of the authority. The authority by statute has the exclusive and autonomous right to set and collect tolls. Net revenues must be at least equal to 1.30x aggregate annual debt service on a trust indenture basis. The additional bonds test is also 1.30x. The debt service reserve requirement is equal to maximum aggregate annual debt service and is cash-funded, save a \$100 million surety provided by Berkshire Hathaway Assurance Corporation (Aa1 Stable IFSR).

The authority has a three-pronged legal framework which provides separation from the state. First, the Toll Highway Act of 1968 is ISTHA's authorizing legislation, which states ISTHA monies can only be spent on toll highway O&M, renewal and replacement, system improvement and debt service for related obligations. Monies in excess of the above expenditures can only be spent on tollway purposes and dispersed only upon the order of the authority. Second, the authority's Master Indenture of 1999 states the flow of funds is closed, and monies can only be used for purposes allowed in the Toll Highway Act. Finally, the 2016 Transportation Lockbox Amendment to Illinois State Constitution precludes transportation funds from being used for non-transportation uses.

PROFILE

ISTHA operates a tollway system that consists of approximately 294 miles of limited access highway in 12 counties in the northern part of Illinois and is an integral part of the expressway system in northern Illinois. The entire tollway system has been designated a part of the US Interstate Highway System, except for the 10 miles of Illinois Route 390. Approximately 11.9% of traffic in FY 2018 is commercial, but this class of vehicles accounted for over 46.4% of revenues. The percentage of commercial vehicle revenues is forecasted to surpass passenger vehicle revenues by 2028 due to previously approved CPI-based annual toll rate increases for this class. The system consists of five components: the new Illinois Route 390 (formerly the Elgin O'Hare Expressway) whose first 6.5-mile segment opened in July 2016, and second 3.5-mile segment opened in November 2017, and upon completion, the Elgin O'Hare Western Access Project will total 17 miles and provide Western access to O'Hare airport; the 76-mile Jane Addams Memorial Tollway, which constitutes a portion of US Interstate Highway 90; the 82-mile Tri-State Tollway constituting portions of US Interstate Highways 80, 94 and 294; the 30-mile Veterans Memorial Tollway (Interstate 355) which opened in December 1989 and was extended in 2007; and the 96-mile Ronald Reagan Memorial Tollway that constitutes a portion of US Interstate Highway 88.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating outcome announced and described above.

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