



Rating Action: Moody's downgrades Illinois State Toll Highway Authority to A1 and assigns A1 rating to Toll Highway Senior Revenue Bonds, 2019 Series A; outlook stable

31 May 2019

New York, May 31, 2019 -- Moody's Investors Service ("Moody's") has downgraded the ratings of the Illinois State Toll Highway Authority (ISTHA or Authority) from Aa3 to A1. The outlook is stable. This action resolves the review for downgrade initiated on May 10, 2019. The rating change acknowledges that while ISTHA is an independently managed agency, there is a linkage between ISTHA and the state of Illinois (Baa3 stable) which could expose bondholders to the state's broad powers under a severe stress scenario at the state level. The rating action does not indicate that the likelihood of such a stress scenario has increased or is likely, yet the potential risk warrants a narrower distinction between the rating of ISTHA and the state.

Concurrently, Moody's has assigned an A1 rating to Illinois State Toll Highway Authority's upcoming \$300 million Toll Highway Senior Revenue Bonds, 2019 Series A. Post-issuance, ISTHA will have approximately \$6.25 billion of bonds outstanding.

RATINGS RATIONALE

The authority's rating has been downgraded to align it more closely to the state's rating. This reflects the credit contagion risk between the state and ISTHA as well as the powers a state could invoke in times of fiscal stress including actions that impact the financial matters at separately managed agencies. The Illinois State Toll Highway Authority does not rely on state funding and its A1 rating (five notches above the state of Illinois' Baa3) acknowledges strong protections in the authorizing legislation, the master trust indenture, and the Illinois Constitution. However, in the event of serious fiscal distress and potential default by the state on its own bonds, risk remains that the authority could be negatively affected by emergency fiscal actions taken by the state in such an unprecedented scenario. This linkage in fiscal distress was highlighted by the March 26th ruling by the 1st Circuit Court of Appeals that upheld a lower court ruling that the Commonwealth of Puerto Rico (Ca Negative) is not required to pay special revenue debt service on bonds of Puerto Rico Highway & Transportation Authority (C Negative) during the pendency of the bankruptcy proceedings. While there is currently no provision for states to pursue a bankruptcy filing, in times of financial stress a state could pursue actions not contemplated under current laws. This risk suggests a closer alignment of ISTHA's rating with that of the state.

Apart from the connection to the parent state government, ISTHA maintains a very strong market position characterized by the essential nature of its tollway system serving one of the largest population bases and diverse economies in the nation. Strong traffic and revenue trends through toll increases and state-level fiscal stress demonstrate the inelastic demand for the tollway system roads and limited impacts of competition. Debt service coverage remains strong, and leverage and liquidity will stay in the same range despite plans to issue an additional \$2.6 billion through 2025.

RATING OUTLOOK

The stable outlook is based on the expectation that the authority will continue to exercise its rate-setting autonomy, that approved commercial toll increases will continue to be implemented as planned, and construction costs for the Move Illinois projects will be in line with estimates. The outlook is also based on the stable credit profile of state of Illinois.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Traffic and revenues that significantly exceed current projections
- DSCRs above the authority's base case forecast and consistently over 2.0x
- Capital projects are delivered on schedule and within budget
- Reduced exposure to variable rate debt and swaps
- Upgrade of the state credit profile

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Traffic and revenues fall short of current projections and DSCRs fall below forecasted levels consistently below 1.5x
- Issuance of additional debt to fund other projects without offsetting toll rate increases or revenue growth, or that results in lower DSCRs or liquidity
- Debt to operating revenues above 7.0x
- Liquidity below 180 days cash on hand
- Deterioration of the state credit profile
- Attempts by the state to divert ISTHA funds to non-authority purposes

LEGAL SECURITY

The authority has a three-pronged legal framework which provides separation from direct control 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.

The bonds are secured by the net revenues of the authority. The authority has by statute the exclusive and autonomous right to set and collect tolls. The rate covenant and additional bonds test for the authority's senior bonds are satisfactory relative to toll highways rated Aa3. Net revenues must be at least equal to 1.30x aggregate annual debt service. The additional bonds test is also 1.30x. The debt service reserve requirement is equal to maximum aggregate annual debt service, and is mostly cash-funded.

USE OF PROCEEDS

The bonds are being used to (a) finance the costs of capital improvements to be made to the tollway system as part of the Move Illinois capital improvement plan, (b) make a deposit to the Debt Reserve Account, and (c) pay costs of issuance.

PROFILE

ISTHA operates a tollway system that consists of approximately 294 miles of limited access highway in twelve 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 revenues is forecasted to surpass passenger vehicles revenues by 2028 due to regular 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. At 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 this rating was Publicly Managed Toll Roads and Parking Facilities published in March 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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