



Rating Action: Moody's places the Illinois State Toll Highway Authority Aa3 rating under review for downgrade in wake of recent court ruling on special revenue pledges

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New York, May 10, 2019 -- Moody's Investors Service has placed the Aa3 rating of the Illinois State Toll Highway Authority (ISTHA) under review for downgrade. ISTHA has approximately \$6.1 billion of bonds outstanding.

RATINGS RATIONALE

The rating action is driven by the recent US Court of Appeals for the 1st Circuit ruling related to the Puerto Rico Highways and Transportation Authority (PRHTA) bonds, which calls into question the strength of credit separations between a general government and its enterprises and component units. The review will consider economic, governance, and financial interdependencies between ISTHA and the State of Illinois (Baa3 Stable) and the extent that, in light of the afore-mentioned court ruling, and such interdependencies pose risks to ISTHA that could have an impact on its credit quality.

On March 26th, the US Court of Appeals for the 1st Circuit ruled that the Commonwealth of Puerto Rico is not required to pay "special revenue" debt service on PRHTA bonds (C Negative Outlook) during the pendency of bankruptcy-like proceedings. While the Court's jurisdiction is only the Commonwealth and those states that are within the 1st Circuit (which does not include Illinois), no appellate-level court has addressed the issue of whether pledged special revenues must be paid to bondholders in a municipal bankruptcy or restructuring process until now. In other municipal bankruptcies, utility and other enterprise revenue bonds have offered extremely high recoveries when associated with general government insolvencies, though they have not always been immune from impairment despite falling under the "special revenue" pledge.

Moody's notes that ISTHA has both authorizing legislation which states that excess revenues in the system reserve account can only be used for tollway purposes and a master indenture with a closed flow of funds. The state also passed a ballot initiative for a transportation lock box within its constitution in November 2016 with nearly 80% voter support, precluding transportation funds from being used for non-transportation uses. Taken together, this had provided sufficient independence to support the wide differential to the state's rating. During the review period, Moody's will determine the degree to which the authority's rating should have a closer linkage to the rating of the state given the 1st Circuit ruling and what it may mean to the relationship between municipal governments with materially higher rated enterprises. The range of potential outcomes include a downgrade of the ISTHA's credit which may be one or more notches to stabilizing the outlook at the current rating level.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Reversal of the ruling by the US Court of Appeals on PRHTA bonds would be supportive of the current rating
- Reduced uncertainty with respect to the breadth of legal implications for special revenue pledges stemming from the 1st Circuit ruling and greater demonstrated independence of ISTHA from the state

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Continued uncertainty with respect to the breadth of legal implications for special revenue pledges stemming from the 1st Circuit ruling
- Attempts by the state to divert ISTHA funds to non-authority purposes
- Deterioration of the state rating
- Traffic and revenues fall short of current projections and DSCRs fall below forecasted levels consistently below two times

LEGAL SECURITY

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

Not applicable.

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-mile portion of Illinois Route 390. Approximately 11.4% of traffic is commercial but this class of vehicles accounted for over 44.6% of revenues in fiscal 2017. The percentage of commercial revenues is forecasted to surpass

passenger vehicles 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 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 84 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 96.5 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. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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