

Rating Action: Moody's revises the outlook on the Illinois State Toll Highway Authority to stable

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New York, April 01, 2021 -- Moody's Investors Service has revised the outlook on the Illinois State Toll Highway Authority (ISTHA or the authority) Toll Highway Senior Revenue Bonds to stable from negative. The A1 rating on \$6.5 billion of Toll Highway Senior Revenue Bonds has been affirmed.

RATINGS RATIONALE

The rating action on the Illinois State Toll Highway Authority was prompted by the recent affirmation of the State of Illinois' rating and the revision of its outlook to stable. That action reflects the state's financial performance through the pandemic, in combination with increased levels of federal support that will moderate near-term fiscal and economic pressure. The credit risks raised by the pandemic during the past year are receding, reducing the near-term likelihood a fiscally-stressed state will exercise powers that could impact financial matters at separately managed agencies. Moody's notes the longer-term challenges associated with the state's very large unfunded post-employment liabilities remain and the five notches of rating differential between ISTHA and the state is unlikely to widen.

The A1 senior lien ratings are based on the authority's 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 impact of competition. Debt service coverage remains strong, and leverage and liquidity is projected to stay in the same range despite plans to issue an additional \$2.05 billion through 2024. The authority does not rely on state funding and Moody's acknowledges the strong protections provided 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.

As with the broader toll road sector, the ISTHA revenues saw sharp declines in early March related to the coronavirus outbreak. The declines reached their peak in April, with monthly traffic 51.3% down and monthly toll revenues 39.1% down compared to April 2019. The recovery began in May, and as of December 31st, monthly traffic was only down 21.5% from the prior year and monthly toll revenues were down 16.7%. Commercial traffic has shown much more resiliency than passenger traffic and was down only 1.5% from the prior fiscal year. This performance underscores the system's inelasticity of demand, despite market dislocations. Based on unaudited data, FY 2020 Moody's net revenue coverage of debt service should still be strong at 2.07x and leverage at 6.32x; liquidity remains above 1,000 days cash on hand. A November 2020 traffic and revenue study projects a full recovery of toll revenues and volumes in FY 2022, so despite the expectation of \$2.05 billion of issuance through FY 2024, coverage is expected to remain above 2.0x and leverage below 6.0x.

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 the State of Illinois.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Upgrade of the state's rating
- Traffic and revenue that significantly 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

LEGAL SECURITY

The bonds are secured by the net revenues of the toll highway system. The authority has by statute 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 direct control by 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. 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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