FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Illinois State Toll Highway Auth's Series 2020A Sr Revenue Bonds 'AA-'; Outlook Stable

Thu 12 Nov, 2020 - 5:01 PM ET

Fitch Ratings - Austin - 12 Nov 2020: Fitch Ratings has assigned an 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) approximately $500 million of series 2020A senior revenue bonds. In addition, Fitch has affirmed the 'AA-' rating on ISTHA's $6.0 billion of outstanding toll highway senior revenue bonds. The Rating Outlook on all bonds is Stable.

RATING RATIONALE

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 sizable 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.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for the toll road sector. Material changes in revenue and cost profile are occurring across the toll road sector and will continue to evolve as economic activity and government restrictions respond to the ongoing situation. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

KEY RATING DRIVERS

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 2014-2019 compounded annual growth rate (CAGR) of 4.1% reflects consistent growth of both commercial and passenger vehicles. During the coronavirus pandemic, commercial traffic quickly rebounded back to near 2019 levels following the lifting of government restrictions; however, passenger traffic remains down by more than 20% through mid-October. 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 accounted for 88% of total transactions in 2019.

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 inflationary based 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. The latest CPI-based commercial increase went into effect on Jan. 1, 2020.

LARGE CAPITAL PLAN PARTIALLY DEBT FUNDED (Infrastructure Development/Renewal - Midrange)

ISTHA is in the ninth year of its 15-year, $14.3 billion MOVE Illinois capital program. Funding is expected to come from $5.65 billion of new money debt issuances ($3.1 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 $5.7 billion congestion relief program (CRP) on time and under budget, and MOVE Illinois is similarly proceeding according to plan, on track to be completed in 2027.

CONSERVATIVE DEBT PROFILE (Debt Structure - Stronger)

All debt is senior lien and fully amortizing. Further, the ISTHA has taken steps to stabilize its capital structure evidenced by eliminating its variable rate exposure and transitioning to all fixed rate debt. Maximum annual debt service (MADS) is currently estimated to be $500 million in 2031-2034 but is forecasted by the authority to increase to approximately $628 million including projected future issuances for MOVE Illinois.

Financial Metrics: The current tollway system's $6.0 billion debt burden is expected to increase measurably to $7.9 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 3.7x for 2019 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 projects DSCR to average 1.9x through the next 10 years. Strong liquidity of over 1,200 days cash on hand as of 2019 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 Outlook) and Central Florida Expressway Authority (CFEA; A+ Senior/A Subordinate/Negative Outlook), 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

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the authority's sizeable, multi-year capital program, combined with the current effects of the coronavirus pandemic, upward migration is not likely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Stabilized leverage above 8.0x;

--DSCR falling below 1.8x for a sustained period;

--A persistent, rising interest rate environment given the authority's vast and prolonged borrowing needs.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

TRANSACTION SUMMARY

The authority is issuing its ninth series of new money bonds in the amount of $500 million for the $14.1 billion MOVE Illinois, 15-year capital program, expecting to completed in 2027. These bonds are fixed-rate with a final maturity of Jan. 1, 2045 and are expected to price the week of Nov. 16, 2020. Proceeds will go towards project costs, deposits to the debt service reserve, as well as costs associated with the issuance. The debt reserve requirement is the MADS for any fiscal year for all outstanding senior bonds. The bonds are expected to amortize annually from January 1, 2036 to Jan. 1, 2045 to wrap around existing debt service and leave the profile relatively level.

CREDIT UPDATE

Coronavirus Impact

Traffic and toll revenues have been materially adversely affected by the coronavirus pandemic. The authority implemented all-electronic-tolling (AET) on March 14 and stay-at-home orders from the Governor of Illinois took effect from March 21-April 30. Under a phased approach to reopening, portions of the restrictions imposed by the stay-at-home order were lifted on May 1, May 29 and June 26, and passenger traffic has trended upwards as a result. YTD performance, including the first two weeks of October, have resulted in a -23.5% decline from 2019 levels in passenger traffic, but a lesser -2.7% decline in commercial traffic.

Throughout the pandemic, commercial traffic, while still down over the prior year, has outperformed passenger vehicles, as more people worked from home and operated under "stay at home" orders, while commercial goods continued to be transported. The authority currently expects 2020 to ultimately reach approximately 80% of 2019's revenues and estimates DSCR to fall to approximately 2.0x.

Besides implementing AET in response to the pandemic, the authority has also taken measures to keep maintenance and operations costs flat, and has shifted some of the spending on capital projects. These actions should help to protect financial performance without impairing project deadlines or budget expectations. In addition, the authority authorized the issuance of up to $900 million aggregate principal amount of additional senior bonds in May 2020 to refund all or portions of the 2013A bonds and 2014B bonds, in order to reduce annual debt service obligations and provide additional financial flexibility. This authorization of refunding bonds is scheduled to expire Dec. 31, 2021.

In addition to the 2020A bonds, the authority also currently expects to issue approximately $2.05 billion aggregate principal amount of additional parity senior bonds to finance a portion of the costs of the MOVE Illinois Program, consisting of approximately $1.2 billion during 2021-2022 and approximately $850 million during 2023-2024, though the amounts and timing remain subject to change.

FY2019 Performance

Passenger car transactions in FY2019 were up 1.3% to 900,809. Commercial traffic was up 2.2%, to 122,413 transactions. The result was total system transactions up 1.4%. The Tollway's total 2019 operating revenues (GAAP basis), totaling $1.5 billion, exceeded those of the previous year by $48.1 million (3.3%). This increase came from toll revenue which totaled $1.4 billion in 2019 (up $39.7 million (3.0%) from 2018), due to an increase in both commercial and passenger vehicle traffic and an increase in the commercial vehicle toll rates. Revenue from toll evasion recovery was also higher (15.8%) than 2018, at $81.6 million in 2019 (versus $70.5 million in 2018). Operating expenses, excluding depreciation, remained fairly consistent from 2018 to 2019. This resulted in DSCR increasing to 2.75x in 2019 from 2.64x in 2018.

FINANCIAL ANALYSIS

Fitch developed a rating case and two sensitivity cases that reflect more severe declines from the coronavirus. All three cases incorporate planned new debt issuances of $2.1 billion in addition to the $500 million series 2020 bonds. Fitch's rating case incorporates an approximately 16% decline in revenue in 2020 due to the coronavirus. As traffic begins to recover in fiscal 2021, revenues grow by approximately 13%, followed by 5% growth in fiscal 2022. Thereafter, revenue increases by an average of 0.8% per year until debt maturity. Annual operating expenses increase by approximately 4.2% in 2020 and increase again at approximately 4.1% in 2021. Operating expenses grow by roughly 4% thereafter. Under these assumptions, the 10-year DSCRs (2020-2029) averages 1.91x.

In the coronavirus downside case, revenue declines by 20% in 2020 followed by recovery of 15% in 2021 and 7% in 2022. Thereafter, revenue increases by an average of 1% per year. Operating expenses are the same as in the rating case. Under these assumptions, the 10-year DSCRs average 1.86x. In the severe downside case revenue declines by 20% in 2021 followed by recovery spread over 2021 to 2024. Operating expenses increase by 4.8% annually throughout the forecast. In this case senior 10-year DSCR averages 1.63x.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Illinois State Toll Highway Authority (IL)				
• Illinois State Toll Highway Authority (IL) /Toll Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.1.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Illinois State Toll Highway Authority (IL) EU Endorsed

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