Summary:
Illinois State Toll Highway Authority; Toll Roads Bridges

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Table Of Contents
Rating Action
Negative Outlook
Credit Opinion
Related Research
Summary:

Illinois State Toll Highway Authority; Toll Roads Bridges

<table>
<thead>
<tr>
<th>Credit Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$500.0 mil toll hwy sr rev bnds ser 2020A dtd 11/17/2020 due 01/01/2045</td>
</tr>
<tr>
<td>Long Term Rating</td>
</tr>
<tr>
<td>Illinois St Toll Hwy Auth</td>
</tr>
<tr>
<td>Long Term Rating</td>
</tr>
<tr>
<td>Illinois St Toll Hwy Auth toll hwy sr rev bnds (rfdg)</td>
</tr>
<tr>
<td>Long Term Rating</td>
</tr>
<tr>
<td>Illinois St Toll Hwy Auth (BAM) (SECMKT)</td>
</tr>
<tr>
<td>Unenhanced Rating</td>
</tr>
<tr>
<td>Illinois St Toll Hwy Auth (BAM) (SECMKT)</td>
</tr>
<tr>
<td>Unenhanced Rating</td>
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<tr>
<td>Illinois St Toll Hwy Auth (BAM) (SECMKT)</td>
</tr>
<tr>
<td>Unenhanced Rating</td>
</tr>
</tbody>
</table>

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA-' rating to the Illinois State Toll Highway Authority's (ISTHA) pro forma $500 million toll highway senior revenue bonds, series 2020A. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on ISTHA's senior-lien toll revenue bonds outstanding. The outlook is negative.

S&P Global Ratings applied its updated criteria, "Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions," published Nov. 2, 2020, to determine the ratings.

Net revenues of ISTHA toll system secure the authority's toll road revenue bonds. A debt service reserve fund (DSRF), which $400.9 million is currently funded with cash and short-term investments as well as a $100 million financial guaranty insurance policy, provides additional liquidity to bondholders. Post-issuance, ISTHA will have $6.5 billion in principal outstanding, consisting entirely of senior-lien, fixed rated bonds.

The bond proceeds will fund the costs of capital improvements to be made to the tollway system as part of the Move Illinois Program (MIP), make a deposit to the DSRF, and to pay costs of issuance.

The Illinois Tollway, governed by an 11-member board of directors, operates 294 miles of interstate tollways in 12 counties in northern Illinois, including the greater Chicago area. The system comprises five major routes: Tri-State Tollway (Interstates 294, 94, and 80), Jane Addams Memorial Tollway (Interstate 90), Ronald Reagan Memorial Tollway (Interstates 290 and 80).
Tollway (Interstate 88), Veterans Memorial Tollway (Interstate 355), and the recently opened Illinois Route 390. The Tri-State accounts for about 46% of system revenue and about 45% of system transactions, while the remaining three (not including the recently opened Illinois Route 390) are about evenly split.

Credit overview
The long-term ratings reflect our view that management will continue to implement or maintain such measures as either reducing expenses, deferring capital spending, or use other means to maintain financial metrics that, although lower than historical levels, we believe will still be consistent with the current rating. More specifically, we expect the authority will experience a material and sustained decline in toll revenues and traffic due to the COVID-19 outbreak and its associated effects for the remainder of 2020 and into 2021 compared with 2019. This could cause a negative rating action if we believe ISTHA's traffic levels and financial capacity will decline further or stagnate at lower levels longer than expected. The negative outlook reflects our opinion that the authority's financial metrics could be pressured as a result of severely or materially depressed or unpredictable vehicle traffic demand for 2020 and beyond that are beyond management's control. For additional information, see "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic," published March 26, 2020, on RatingsDirect and "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020.

The ratings reflect our opinion of the authority's very strong enterprise risk profile and financial risk profiles as well as a large capital funding plan that will require future additional bond issuances to complete. Our enterprise risk profile assessment reflects ISTHA's very strong market position due to the toll road's important role as a regional urban infrastructure provider, with critical transportation links in northern Illinois that include the deep and diverse Chicago metropolitan statistical area (MSA), despite the existence of non-tolled alternatives. Our financial risk profile assessment reflects our expectation that COVID-19 and associated effects on tolled traffic levels will cause a drag on financial performance for the remainder of 2020, but that ISTHA will maintain future financial metrics beyond 2020 at or near pre-pandemic levels due to relatively a quick recovery in traffic levels and management's ability to adjust operating expenditures, defer capital spending, and increase toll rates if needed.

ISTHA reports that system traffic levels declined an estimated 51% in April 2020 versus the same month in 2019, and improved modestly to an estimated 41% down for the month of May year over year and have continued to improve June through October compared with the same period in 2019, with October 2020 down 18% compared with the previous year. As a result of the effects of COVID-19, the impact on traffic levels for the remaining months of 2020 will be largely dependent on the duration of the outbreak, local requirements for shelter-in-place or social distancing, and potential shifting behavioral trends in the near term.

The consultant's baseline forecast includes a traffic and revenue report, completed by CDM Smith in connection with this bond issuance, and assumes an annual transaction growth of 4.2% for toll transactions from 2020-2030, with a recovery to 2019 traffic and revenue levels by 2022 and 2021, respectively. This is ahead of S&P Global Ratings' current U.S. April 2020 baseline activity estimates, but we believe it is reasonable given that ISTHA's current traffic levels are performing better than our current estimates. The forecast assumes no changes in ISTHA's existing toll-rate policy and it does not include any assumptions regarding the availability of an effective COVID-19 vaccine, but it does assume that COVID-19's impact on toll revenues will be largely resolved by early 2021, with toll revenues reaching $1.56 billion by 2023, $1.73 billion by 2026, and $1.88 billion by 2029.
We will continue to monitor ISTHA’s current and near-term capital and budgetary funding requirements—as management continues to manage its mitigation measures to counter historically lower traffic levels and reductions in toll revenues.

Key credit strengths, in our opinion, are:

• The system’s role as a regional urban infrastructure provider, with critical transportation links in northern Illinois that include the deep and diverse Chicago MSA, despite the existence of nontolled alternatives;

• Very strong debt service coverage (DSC) and debt-to-net revenues, supported by historic toll transaction growth, and our expectation that DSC and debt-to-net revenues will remain generally comparable, albeit, somewhat weaker in the near term due to the effects of the COVID-19 pandemic;

• Exceptional liquidity, with unrestricted reserves totaling $1.2 billion in fiscal 2019, equal to more than three years' cash on hand; and

• ISTHA’s very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently to address material variances, and a very capable staff that has considerable experience operating a regional tolling agency.

Key credit weaknesses, in our view, are:

• A significant decline in ISTHA’s toll transactions by 21% from January-October 2020 compared with the same period in 2019 due to stay-at-home and social-distancing restrictions associated with the pandemic;

• ISTHA’s potentially weaker-than-expected financial capacity from potentially experiencing substantially depressed traffic levels beyond 2020 due to lingering stay-at-home and social-distancing restrictions, changing work and commute habits due to the COVID-19 pandemic, or elevated unemployment levels from the pandemic-induced recession; and

• ISTHA’s escalating debt service requirements and additional debt plans, with level all-in debt service not occurring until 2031.

Environmental, social, and governance (ESG) factors
We analyzed ISTHA's ESG risks relative to its market position, management and governance, and financial performance, and determined that all are in line with our view of the sector standard. However, ISTHA is exposed to health and safety social risks related to COVID-19 resulting in operating and financial pressures. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario
We could lower the rating if we believe traffic levels will remain materially depressed for a period longer than our current expectation, suggesting a weaker market position or financial metrics that are consistent with a lower rating.

Return to stable scenario
We could revise the outlook to stable in the next two years if we receive further clarity on when and how well traffic
levels recover and stabilize allowing ISTHA to maintain financial metrics consistent with the current rating and that are sustainable.

Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and traffic levels. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions, but that it will remain a threat until a vaccine or effective treatment is widely available, which might not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research at www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The U.S. economy has begun what looks to be a long, difficult journey to recover from its pandemic-induced slump. With consumer spending proving largely resilient through summer 2020 (helped by federal fiscal stimulus) and unemployment--while still notably high--softening a bit more than S&P Global Economics had forecast, third-quarter GDP is poised for a steeper rebound than many market participants expected. S&P Global Economics expects a 29.5% bounce in third-quarter U.S. GDP (6.7% annualized rate), although that will only partially offset the massive losses in the first half of the year. Our current economic forecasts anticipate ending 2020 at a negative 4.0% real GDP growth rate and rebounding to a slower growth phase heading into 2021, with 3.9% estimated for next year, down from 5.2% in June's economic forecast and weaker than our previous 2021 estimate of 6.2%. The unemployment rate declined to 8.4% in August 2020 from its post-1947 record high of 14.75% (in April 2020). However, S&P Global Economics doesn't expect the unemployment rate to reach its pre-pandemic level until mid-2024. Our economic forecasts and macro credit implications associated with the pandemic assume a vaccine or effective treatment is widely available in the second half of 2021. As this sluggish recovery unfolds, three big risks remain: no coronavirus vaccine yet available as the country heads into flu season, a lack of new fiscal stimulus, and trade tensions with China on the rise. (See "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead," Sept. 24, 2020.)

Despite being an administrative agency of the state, the tollway is a fully self-supporting enterprise, which derives approximately 98% of its operating revenue from the tolls and evasion recovery it collects from those who use its toll highways. Its board of directors has the authority to increase toll rates as needed. The tollway does not receive any state funding, and it is not dependent on state appropriations. Its finances are also separate and independent from those of the state. The authority, not the state, collects toll revenue, and then is required to transfer that revenue to the state treasurer, who is then responsible, at the authority's direction, to pay ISTHA expenses as they become due and to submit funds to the trustee to satisfy ISTHA bond-related payments and deposits required under the indenture. In this case, however, the state treasurer is the legal custodian, and the authority's revenue is not comingled with any other state funds or money. Furthermore, there are strong statutory, constitutional, and other legal protections that should prevent the state from diverting tollway revenue for nontollway purposes. While the state could become motivated to take steps to rewrite, eliminate, or even ignore such protections in times of severe financial distress, we believe the likelihood of this happening is remote since our forward-looking view on the state is reflected in our current stable outlook. However, if the state's financial situation materially weakens it could cause downward pressure on the ratings
on ISTHA’s bonds since, in our opinion, the likelihood of the state diverting authority revenue for non-ISTHA purposes increases.

**Related Research**

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings’ public website at www.standardandpoors.com. Use the Ratings search box located in the left column.