



## RATING ACTION COMMENTARY

# Fitch Rates Maine Turnpike Authority Rev Bonds at 'AA-'; Outlook Stable

Wed 01 Dec, 2021 - 5:51 PM ET

Fitch Ratings - New York - 01 Dec 2021: Fitch Ratings has assigned an 'AA-' rating to Maine Turnpike Authority's (MTA, the authority) approximately \$102 million series 2022 turnpike revenue refunding bonds.

Fitch has also affirmed MTA's approximately \$553 million outstanding revenue bonds at 'AA-' and \$24 million outstanding special obligation bonds at 'A-'. The Rating Outlook is Stable.

## RATING RATIONALE

The 'AA-' and 'A-' ratings reflect the authority's mature and stable traffic base, which has a relatively high exposure to discretionary and commercial traffic. The ratings are further supported by the authority's strong rate-making ability, evidenced by a history of above-inflation toll rate increases. An additional \$355 million in future debt is expected to be raised over the next 10 years but financial metrics are expected to remain commensurate with the rating level.

The three-notch differential between the senior and special obligation liens reflects the wide differential in coverage between the two liens, with 10-year average rating case

coverage of 2.8x senior and 1.9x total, as well as the special obligation bonds' deeply subordinated status and weaker security package.

## KEY RATING DRIVERS

Mature Traffic Base, Leisure Exposure - Revenue Risk (Volume): Midrange

The Maine Turnpike is a mature asset and serves as the primary travel corridor through the southern and most populated portion of Maine. It provides access to the coastal areas resulting in relatively high exposure to discretionary traffic, while serving as an essential artery for commercial vehicles. Traffic has historically remained stable even through the most recent economic downturn, demonstrating low elasticity to toll increases with the most recent toll increase implemented in November 2021. Although the turnpike experienced severe traffic declines related to the coronavirus pandemic, traffic has nearly recovered to historical levels. In Fitch's view, the current toll rate of eight cents per mile for passenger vehicles is low, supporting MTA's strong economic rate-making flexibility.

Demonstrated Rate-Making Flexibility - Revenue Risk (Price): Stronger

The authority benefits from unlimited legal authority to change toll rates as needed. Historically, management has demonstrated a willingness to increase revenues through periodic, above-inflationary toll rate increases to ensure the funding of capital needs and to maintain financial flexibility, with the most recent increase taking effect November 2021. Fitch expects toll rates to be raised as necessary.

Manageable Capital Program - Infrastructure Development & Renewal: Stronger

MTA's approximately \$2.8 billion 30-year capital program (2018-2047) is manageable, mostly addressing maintenance needs and some capacity expansion to alleviate congestion around Portland. Management plans to potentially issue debt in small increments every few years to assist with the funding of its capital plan. Fitch does not expect these possible issuances to be onerous given the strength of MTA's financial profile and that the majority of the capital plan is cash-funded. The authority expects roughly 65% of capital plan funding to come from cash flow with the remainder being funded by new debt issuances.

Sound Debt Structure: Stronger (Senior); Weaker (Special Obligation)

MTA's debt is all fixed-rate and fully amortizing. The senior bonds are further supported by a cash debt service reserve fund, which is currently funded at half of maximum annual debt

service given that senior debt service coverage ratio (DSCR) has remained above 2.0x. There is no dedicated debt service reserve supporting the special obligation bonds. On the special obligation lien, a weak sum sufficient covenant and additional bonds test, coupled with structural subordination provide for weaker bondholder protection.

## Financial Profile

MTA's strong financial profile affords financial flexibility to weather economic downturns. Fiscal 2020 (YE December 31) coverage on a senior and total basis based on audited financials was 2.3x and 1.1x, respectively. Debt service coverage averages 2.8x senior and 1.9x total in Fitch's rating case. Net debt to cash flow available for debt service (CFADS) of 6.4x senior and 13.3x total was temporarily high in 2020 due to the pandemic. By 2025, leverage is expected to decline to 3.2x senior and 5.1x total in Fitch's rating case due to new debt issuances.

## PEER GROUP

Maine Turnpike's closest peer is New Hampshire Turnpike System (A+/Stable). Both are strong, mature turnpike systems comprised of both urban and rural segments. Maine Turnpike features higher DSCRs than New Hampshire on the senior lien, reflective of its higher rating level.

## RATING SENSITIVITIES

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

--Sustained underperformance of traffic, revenue or maintenance of expenses, leading to senior coverage below 2.0x, and total coverage below 1.4x without plans to remedy future potential liquidity gaps with a near-term toll increase.

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

--While the near-term financial profile is robust, given peers at 'AA' have stronger volume risk profiles, positive rating movement is unlikely in the near term.

## 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 plans to issue approximately \$102 million in series 2022 senior turnpike revenue refunding bonds (forward delivery). Proceeds will be used to refund the series 2012A and series 2012B turnpike revenue refunding bonds and cover the costs of issuance. The series 2022 bonds will be on parity with existing senior bonds and will mature in 2042. The bonds are expected to price on December 7th.

## **CREDIT UPDATE**

Performance data for 10-months fiscal YTD 2021 (ending December 31) indicate substantial traffic recovery compared to early pandemic levels, with traffic and revenue down 7% and 4%, respectively, from 2019. Traffic levels continue to recover, with the latest month of traffic in October returning to 97% of pre-pandemic volumes. The authority currently expects FY 2021's gross toll revenues to reach 96% of 2019 levels, which is expected to be supported by the latest toll rate increase, which took effect November 1. Continuing the current year trend, traffic levels are expected to recover to pre-pandemic levels in fiscal 2022.

The financial impact from the coronavirus pandemic on the authority in 2020 was significant. Total revenues were down approximately 18% from 2019. Total traffic was down 22% from the prior year.

The authority anticipates the next toll rate increase will be in 2028 at 29%. Since 1999 the MTA has raised tolls five times, all at levels above inflation with minimal political pushback. The most recent toll increase was 13% across all fare types in November 2021. Fitch expects the MTA will implement rate increases as necessary with minimal impact to traffic. Toll rate increases are not expected in the near future given the turnpike's robust financial profile.

## **FINANCIAL ANALYSIS**

Both Fitch cases incorporate the proposed refunding transaction, future debt issuances for the authority's capital program, the November 2021 toll rate increase and the scheduled

29% toll rate increase across the system in 2028. Fitch adopted the management case as the base case. Revenue increases at a CAGR of 7% from 2020 through 2030, reflecting recovery from the pandemic and toll rate increases. Operating expenses grow at a 10-year CAGR 4.2%. The base case results in 10-year average DSCRs of 3.0x senior and 2.0x total and year-five (2025) net debt to CFADS of 3.1x senior and 4.7x total in 2025.

Fitch's rating case assumes a 3% decline in toll revenue in 2024 to model a hypothetical recession. Toll revenue recovers to the base case level in 2026. Operating expenses grow at 0.5% higher than in the base case. The rating case results in 10-year average DSCRs of 2.8x senior and 1.9x total and year-five (2025) net debt to CFADS of 3.2x senior and 5.1x total in 2025.

In Fitch's view, senior lien metrics are considered consistent with the 'AA-' rating, including extra financial cushion to offset traffic profile characteristics which other peers rated 'AA' do not possess. Additionally, metrics on a total basis appropriately warrant an 'A-' rating for the special obligation bonds, reflecting the substantial differential in rating case coverage levels as well as additional debt structure risk.

## **SECURITY**

The senior-lien bonds are secured by a pledge of all turnpike revenues, including all monies, funds and other income received by the authority from the operation of the turnpike.

The special obligation bonds are secured by a pledge of all special obligation revenues, specifically all monies, funds and other income transferred to the trustee after all obligations for the more senior liens and the deposit into the reserve maintenance fund has been satisfied.

### **Asset Description**

The Maine Turnpike Authority is a body politic and corporate that is empowered under the enabling act to construct, maintain, and operate the turnpike. The Maine Turnpike extends 109 miles from Kittery, ME in the south to Augusta, ME in the northeast. The turnpike includes 19 interchanges, 19 toll plazas and 183 bridge and major box culvert structures.

## **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](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Maine Turnpike Authority (ME)		
Maine Turnpike Authority (ME) /Toll Revenues - Subordinated Obligations/1 LT	LT A- Rating Outlook Stable	Affirmed A- Rating Outlook Stable
Maine Turnpike Authority (ME) /Toll Revenues/1 LT	LT AA- Rating Outlook Stable	Affirmed AA- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Aysha Seedat

Analyst

Primary Rating Analyst

+1 646 582 4278

[aysha.seedat@fitchratings.com](mailto:aysha.seedat@fitchratings.com)

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

### Anne Tricerri

Director

Secondary Rating Analyst

+1 646 582 4676

anne.tricerri@fitchratings.com

**Scott Monroe, CFA**

Senior Director

Committee Chairperson

+1 415 732 5618

scott.monroe@fitchratings.com

**MEDIA CONTACTS**

**Sandro Scenga**

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**

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

[Infrastructure and Project Finance Rating Criteria \(pub. 23 Aug 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

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

GIG AST Model, v1.3.1 ([1](#))

**ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Maine Turnpike Authority (ME)

EU Endorsed, UK Endorsed

**DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)**COPYRIGHT**

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its



ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice

of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for

regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Industrials and Transportation    US Public Finance    Infrastructure and Project Finance

North America    United States

---