S&P Global Ratings

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Summary:

Maine Turnpike Authority; Toll Roads Bridges

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Credit Profile		
Maine Tpk Auth spl oblig (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Maine Tpk Auth tpk rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Maine Tpk Auth TOLLFAC		
Long Term Rating	A+/Stable	Affirmed
Maine Tpk Auth		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Maine Tpk Auth tpk rev bnds		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has affirmed its 'AA-' rating on Maine Turnpike Authority's (MTA) senior-lien turnpike revenue bonds. At the same time, we affirmed our 'A+' rating on the authority's special obligation bonds (subordinate lien). The outlook is stable.

As of August 2017, the MTA has $335.7 million in senior-lien bonds and $29.9 million in subordinate-lien special obligations outstanding. We view the overall legal structure and protections to be slightly weaker but neutral for credit quality given the turnpike's consistently strong financial performance. The indenture has a lower 1.2x rate covenant and projected additional bonds test and a debt service reserve (DSR) funded to only 50% of maximum annual debt service (MADS; currently $16.8 million) funded with cash and bond insurance surety policies. The special obligations-lien bonds do not benefit from a DSR. The rate covenant requires the authority to increase the DSR to 100% of MADS if debt service coverage (DSC) dips below 2x for two consecutive years, but only until it has achieved DSC at 2x or higher for two consecutive years, which it did in fiscal years 2005-2016. The MTA's debt extends to 2034 for the special obligation bonds, and to 2043 for the turnpike revenue bonds.

The 'AA-' rating reflects our opinion of the authority's:

- Good historical financial performance, which we expect to continue and management's policy of maintaining senior-lien DSC of at least 2x;
- A moderate debt burden with an affordable capital program (no toll increases required) and moderate additional debt needs, which we expect to continue given the MTA's capital plan;
- Very strong market position given the turnpike's location and limited number of competing free roads within the service area, combined with what we view as good rate-setting flexibility; and

- Stable long-term traffic growth and revenue as evidenced by five-year compound annual growth rates of 2.7% and a 5.7% (2011-2016), respectively, with the most recent toll rate increase in 2012.

In our opinion, somewhat offsetting these credit strengths are low liquidity for the rating category based on unrestricted cash levels and seasonal fluctuations in traffic, reflecting the importance of tourism to the authority's operations.

The Maine Turnpike Authority is a stand-alone entity created by state statute in 1941 for the purpose of operating and maintaining what is now an approximately 109-mile toll road (Interstate 95) from the New Hampshire border at the Piscataqua River northward to Augusta, Maine. Because of its location serving the most populous, more affluent, and popular recreational coastal areas of the state, combined with a lack of highway alternatives, we view the turnpike to have a very strong market position. The turnpike has four mainline toll plazas and is gradually implementing open road tolling (ORT), allowing vehicles with electronic transponders to pass toll barriers at highway speed estimated to be complete in 2021-2022. The share of electronic transactions is lower than many toll systems at 76% in 2016, again a reflection of the tourism component of their user base. The seasonality to the overwhelmingly passenger vehicular traffic levels (90% of transactions/71% of revenues) can be observed in July and August, when transactions can be 130% of the monthly average. However, steady annual growth trends and small declines observed during economic downturns provide credit strengths. Historical positive trends are continuing: management reports traffic through August 2017 is up 2.5% over 2016 record levels and toll revenues are up 2%.

The authority's overall financial performance has largely mirrored these positive trends. Operating revenues (96% from tolls but including concession revenues and other miscellaneous income) totaled $140.3 million in 2016, up 4.5% from 2015, with the largest increase of 15.3% observed in recent years occurring in 2013 after the Nov. 1, 2012 toll increase. After peaking in 2014, operating expense have been falling the last two years and totaled $69.8 million in 2016, down 2.2% from 2015. The authority's budget includes a preservation expense under a modified approach to infrastructure reporting, meaning it reports the cost of maintaining toll assets in good working order as an expense rather than capturing it as a depreciation expense. The variability in this expense item partially accounts for the declining expenses and we account for this in our DSC metrics.

DSC calculated under the bond resolution has exceeded 2.5x on the senior lien for the past six fiscal years, including 3.06x in 2016 and 2.76x when including subordinate-lien debt. Projected coverage calculated per the resolution in the MTA's forecast indicates continued strong coverage of at least 2.8x in fiscal years 2017-2021. Our ratings reflect adjustments to these calculations which are lower but still demonstrate what we consider to be solid financial metrics. We calculate DSC on an all-in basis at 1.79x in 2016, but 2.19x when giving credit for preservation expense and 2.07x when including approximately $2.1 million in transfers to the Maine Department of Transportation. However, while the authority has a fully funded maintenance fund, we consider liquidity levels when counting truly unrestricted monies at approximately 36 days' expenditures (including preservation expenses) as of the end of fiscal 2016 (Dec. 31). Excluding annual preservation expenses days' cash is 42 days. The authority has a $20 million letter of credit with no balance outstanding expiring on Dec. 31, 2017 to provide additional liquidity if needed. We view management's forecasts to be conservative with toll revenue growth incorporated into financial projections growing at 1% 2017, 0.5% 2018, 1% for 2019, and 1.25% thereafter.

We expect the financial profile to remain solid as the authority moves through the 2017-2021 capital plan and additional debt of approximately $110 million estimated for 2019 to fund the construction of the York and Gardiner/I-295 plazas, and bridge/interchange rehabilitation in the Portland area in advance of the Portland area widening. Pro forma debt service grows steadily from about $33 million in fiscal 2017 to about $46 million in 2030.

Outlook

The stable outlook reflects our expectation that, over the next two years, good budgeting practices and recent steady traffic growth will enable the MTA to maintain solid DSC, as it has forecast.

Upside scenario

We do not expect to raise the rating within the two-year outlook period because we expect financial and operating performance to remain consistent with the ratings. However, if DSC levels increase significantly above forecast and liquidity levels improve, we could raise the rating by one notch.

Downside scenario

Although unlikely, given the authority's current debt plans, we could lower the rating if DSC declines significantly and liquidity declines further, due to an increase in annual debt service burden or a significant decline in traffic levels that substantially affects toll revenues.

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.