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

Fri 23 Oct, 2020 - 1:03 PM ET

Fitch Ratings - New York - 23 Oct 2020: Fitch Ratings has assigned an 'AA-' rating to Maine Turnpike Authority's (MTA) approximately $130 million series 2020 turnpike revenue bonds.

Fitch has also affirmed MTA's approximately $439 million outstanding revenue bonds at 'AA-' and $25 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 $530 million in future debt expected to be raised over the next 15 years but the financial metrics are expected to remain commensurate with the rating level. Robust financial margins coupled with potential future toll increases fund future capital plan requirements.
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 2.2x senior and 1.3x total, as well as the special obligation bonds' deeply subordinated status and weaker security package.

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**

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 2012. Although the Turnpike experienced severe traffic declines related to the coronavirus pandemic, levels have recovered in recent months, and performance has exceeded Fitch's expectations. In Fitch's view, the current toll rate of 7.7 cents per mile for passenger vehicles is low, supporting MTA's strong economic rate-making flexibility.

Demonstrated Rate-Making Ability - 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. Toll rates are expected to be raised as necessary, though the turnpike does not anticipate requiring a toll increase until 2028.
Manageable Capital Program - Infrastructure Development and Renewal: Stronger

MTA's approximately $2.8 billion, 30-year capital program 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 - Debt Structure: Senior - Stronger, Special Obligation - Weaker

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 (ABT), coupled with structural subordination provide for weaker bondholder protection.

Financial Profile

MTA's strong financial profile affords financial flexibility to weather economic downturns. Fiscal 2019 (year ended Dec. 31) coverage on a senior and total basis based on audited financials was 3.1x and 1.8x, respectively. Leverage levels on a net debt to cash flow available for debt service (CFADS) basis are appropriate for each lien's respective rating category, at 3.8x senior and 6.3x total in 2019. Debt service coverage averages 2.2x senior and 1.3x total in Fitch's rating case. By 2024, leverage is expected to increase to 4.7x senior and 8.0x 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 Outlook). 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. In addition, Maine's higher rating reflects significant
rate-setting flexibility compared to New Hampshire. New Hampshire Turnpike System's toll rates have been affected by political interference, most recently the adoption of the Governor's proposal to remove tolls on an exit plaza.

**RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to a 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.

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

--Sustained underperformance of traffic, revenue or maintenance of expenses, leading to senior coverage below 2.0x, and total coverage below 1.2x without plans to remedy future potential liquidity gaps with a near-term toll increase.

**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/1011579].

**TRANSACTION SUMMARY**

The authority plans to issue approximately $130 million in senior turnpike revenue
bonds, Series 2020. Proceeds will be used to fund the capital plan, the required deposit to the debt service reserve fund, and cover the costs of issuance. The series 2020 bonds will be on parity with existing senior bonds and will mature in 2050. The bonds are expected to price via a negotiated sale on Nov. 3.

**CREDIT UPDATE**

The coronavirus pandemic has had a substantial effect on 2020 traffic and revenues to date but at similar magnitude to other Fitch-rated toll roads. YTD traffic and revenue through September (9 months) are down 23.1% and 18.9%, respectively, from the same period in 2019. Passenger travel has rebounded in recent months. September traffic was down 13.7% yoy, a marked improvement from the trough of 53.7% in April. Traffic and toll revenues have steadily improved as Maine's Governor has eased pandemic-related lockdown restrictions. The Authority currently expects fiscal 2020 to reach 80% of 2019's revenues. Prior to the pandemic, traffic on the Turnpike reached another record high for the sixth year in a row reflecting strong economic conditions. Traffic and revenue increased by 2.1% and 1.1% in fiscal 2019, following fiscal 2018's growth of 2.7% and 1.7% respectively.

Similar to other Fitch-rated toll roads with a significant level of commercial vehicles, Maine turnpike has benefited from stronger performance of commercial traffic during the pandemic compared to passenger traffic. Peak monthly traffic and revenue declines in April were 13.6% and 12.6% respectively for commercial vehicles compared to 58.3% and 61.4% for passenger vehicles. As of fiscal 2019, commercial vehicles accounted for 10% of traffic but accounted for 30% of toll revenue due to the higher toll rates.

In response to the pandemic, the Authority implemented the following measures to help mitigate both the spread of the virus as well as manage expenses. All employees were placed on paid administrative leave for six weeks. During this time, the Authority only maintained essential functions, including the manual collection of cash tolls. Following the paid leave, the Authority permanently eliminated numerous toll collector shifts, expecting to save over $1 million annually. Since the beginning of the pandemic, there has been a shift in customers moving to EZPass from cash, driving the electronic toll collection penetration rate to over 80% as of Sept. 30, 2020, thus supporting the elimination of cash collections. The Authority expects 2020 operating expenses to be approximately 3% lower than 2019 levels.
Proceeds from the Series 2020 issue will fund MTA’s capital plan. The detailed capital plan includes lane widening, bridge maintenance and modernization of toll facilities. The MTA expects to issue debt every few years to support its capital plan and maintain financial flexibility, totaling $530 million over the next 15 years. Fitch does not expect the additional borrowings to be detrimental to the turnpike's financial well-being, as even with the additional debt, in the rating case senior DSCR averages above 2x and senior leverage remains below 6x through debt maturity (excluding 2020 at 6.6x).

The authority anticipates the next toll rate increase will be in February 2028 at 25%. Since 1999 the MTA has raised tolls four times, all at levels above inflation with minimal political pushback. The most recent toll increase was 20.5% across all fare types in November 2012. 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**

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 $530 million in addition to the $130 million series 2020 bonds and a 25% toll rate increase in 2028. Fitch's rating case incorporates an approximately 20% decline in revenue in 2020 due to the coronavirus. As traffic begins to recover in fiscal 2021, revenues grow by approximately 16%, followed by 5% growth in fiscal 2022. Thereafter, revenue increases by an average of 1% per year until an increase of approximately 24% in 2028 due to the toll increase. Annual operating expenses decline by approximately 3% in 2020 and increase at approximately 2% in 2021. Operating expenses grow by roughly 4% thereafter. Under these assumptions, the 10-year DSCRs (2020-2029) average 2.2x senior and 1.3x total. Total debt service coverage is post annual funding of $40 million for the reserve maintenance fund deposit.

In the coronavirus downside case, revenue declines by 23% in 2021 followed by recovery of 17% in 2022 and 6% in 2023. Thereafter, revenue increases by an average of 1% per year until an increase of approximately 24% in 2028 due to the toll increase. Operating expenses are the same as in the rating case. Under these assumptions, the 10-year DSCRs average 2.1x senior and 1.2x total. In the severe downside case revenue declines by 23% in 2021 followed by recovery spread over 2021 to 2024. Operating
expenses are the same as in the rating case. In this case senior 10-year DSCR averages 1.9x and total DSCR averages 1.0x. The authority would have significant flexibility to increase financial cushion in such a severe scenario through measures such as raising toll rates or deferring capital spending and associated debt issuances.

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

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**RATING ACTIONS**

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maine Turnpike Authority (ME)</td>
<td>A- Rating Outlook Stable</td>
<td>Affirmed</td>
</tr>
<tr>
<td>Maine Turnpike Authority (ME) /Toll Revenues - Subordinated Obligations/1 LT</td>
<td>A- Rating Outlook Stable</td>
<td></td>
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</tr>
</tbody>
</table>

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**FITCH RATINGS ANALYSTS**

Anne Tricerri
Director
Primary Rating Analyst
+1 646 582 4676
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Mark Lazarus
Director
Secondary Rating Analyst
+1 312 368 3219

Chad Lewis
Senior Director
Committee Chairperson
+1 212 908 0886

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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)

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<table>
<thead>
<tr>
<th>Industrials and Transportation</th>
<th>US Public Finance</th>
<th>Infrastructure and Project Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>United States</td>
<td></td>
</tr>
</tbody>
</table>