



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.

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](#)

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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

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Maine Turnpike Authority (ME)

EU Endorsed, UK Endorsed

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