

Rating Action: Moody's assigns Aa3 to Maine Turnpike Authority's Turnpike Revenue Refunding Bonds, Series 2022; outlook is stable

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New York, November 30, 2021 -- Moody's Investors Service has assigned Aa3 to Maine Turnpike Authority's \$101.81 million Turnpike Revenue Refunding Bonds, Series 2022 (Forward Delivery). The outlook is stable. The authority also has \$552.9 million in senior lien currently outstanding rated Aa3, and \$23.755 million outstanding in subordinate lien Special Obligation Bonds.

RATINGS RATIONALE

The Aa3 senior lien rating of the Maine Turnpike Authority (MTA or the authority) is underpinned by its position as the primary link between the State of Maine and the rest of the United States, as well the primary travel corridor through the southern portion of the state, serving the vast majority of Maine's population. The rating acknowledges the authority's ability and willingness to increase rates, evidenced by the 13% toll rate increase approved in September and effective on November 1, 2021, which will support its revenue recovery going forward. The rate adjustment aims to mitigate severe traffic and revenue losses amid the pandemic, which reduced by 21.8% and 19.5% in 2020, respectively. Positively, the authority has experienced a fast traffic recovery, with October year-to-date volumes at 93% of the same period in 2019. Pent-up demand and strong economy recovery have supported a rapid traffic rebound to pre-pandemic levels.

The rating considers MTA's track record of robust debt service coverage ratios (DSCRs) with relatively low leverage. In fiscal 2020, Moody's senior lien net revenues DSCR reduced to a still sound 1.8x from an average of 2.5x from 2017 through 2019, and adjusted debt to operating revenues increased to 5.7x from an average of 3.6x prior COVID. Going forward, we expect coverage and leverage metrics to return to historical average levels, as toll revenues are projected to fully recover already in 2022 owing to the recent rate increase coupled with strong traffic recovery.

The ratings also reflect weaker than standard debt service reserve fund levels and liquidity levels lower than its peers, though still at adequate levels. The A2 rating on the Special Obligation Bonds is based on the subordinated nature of the security pledge and the lack of a debt service reserve fund.

The authority currently estimates its capital program costs for the six-year period from 2021 through 2025 at approximately \$346 million and these will be funded by a combination of pay-go revenue and bond issuance. Management has plans for additional issuance to fund the capital program starting in 2026.

RATING OUTLOOK

The stable outlook reflects the expectation that the authority's all-in debt service coverage ratios will be maintained above 2.0x on a Moody's net revenue basis through its borrowing plan.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Significant and continuing increase in traffic and revenue that translates into better than historical DSCRs and leverage despite increased debt
- Cash levels maintained above 730 days on a sustained basis

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Declines in traffic and revenue, such that all-in Moody's Net Revenue DSCR falls below 2.0x on a sustained basis
- Further increase in leverage without a commensurate increase in net revenue
- A drop in days cash on hand below 500 days on a sustained basis

LEGAL SECURITY

The bonds are secured by the net revenues of the authority. The pledge securing the Special Obligation Bonds is subordinate to the pledge granted to secure the Turnpike Revenue Bonds. The authority has the autonomous right to set and collect tolls. Net revenues must be at least equal to 1.20x aggregate annual bond ordinance debt service and 1.00x the sum of bond ordinance debt service, the required reserve maintenance deposit, the required debt service reserve deposit and any other required deposit. The debt service reserve requirement is 50% MADS as long as the bond ordinance debt service coverage of the prior year exceeds 2.00x; otherwise the requirement increases to MADS for the current and all futures years' turnpike revenue bonds are outstanding.

USE OF PROCEEDS

Proceeds of the 2022 revenue bonds will be used to (i) refund the authority's outstanding Turnpike Revenue Bonds, Series 2012A and Turnpike Revenue Refunding Bonds, Series 2012B, and (ii) to pay costs of issuance.

PROFILE

The Maine Turnpike serves as a primary travel corridor through the southern portion of the state, extending approximately 109 miles from the New Hampshire/Maine border at Kittery northward to Augusta. The vast majority of Maine's population lives and works in the southern portion of the state served by the Turnpike. Major communities served include Kittery, Biddeford, Saco, Portland, Westbrook, Auburn, Lewiston and Augusta. The turnpike is the primary link between Maine and the rest of the United States.

The turnpike is a controlled access divided highway with barrier guardrail. The northern section of the turnpike through Portland to Augusta consists of two 12-foot travel lanes and an 8-foot outer shoulder on both roadways. The southern section from Kittery to Portland consists of three 12-foot travel lanes and a widened 12-foot outer shoulder on each roadway. The turnpike owns and maintains 201 bridges or culverts at least 10 feet in length and many other significant structures. The turnpike operates 19 toll plazas, five service areas, seven highway maintenance facilities, three mechanic garages, a body shop, a sign shop, and a headquarters building that also houses an E-ZPass customer service, a radio room and Troop G of the Maine State Police.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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