S&P Global
Ratings

RatingsDirect®

Summary:

Maine Turnpike Authority; Toll Roads Bridges

Primary Credit Analyst:
Kurt E Forsgren, Boston (1) 617-530-8308; kurt.forsgren@spglobal.com

Secondary Contact:
Kenneth P Biddison, Centennial + 1 (303) 721 4321; kenneth.biddison@spglobal.com

Table Of Contents

Summary:

Maine Turnpike Authority; Toll Roads Bridges

Credit Profile		
US$130.0 mil tpk rev bnds ser 2020 dtd 11/18/2020 due 07/01/2050		
Long Term Rating	AA-/Negative	New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the Maine Turnpike Authority's (MTA or the authority) proposed approximately $130 million series 2020 turnpike revenue bonds and affirmed its 'A+' rating on the authority's $25.1 million of special obligation bonds (subordinate lien), using its "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE) criteria (published March 12, 2018). The outlook is negative.

Security for the bonds is a pledge of revenues from tolls, concessions, rents, and all money in funds established by the bond resolution. Bond proceeds of the series 2020 will be used to finance a variety of ongoing capital needs, including conversion to open-road tolling at the system's primary toll plaza, as well as road widening, interchange replacements, and bridge rehabilitation projects. Bond proceeds will also fund a deposit to the debt service reserve (DSR) fund to meet the $25 million requirement, which is the equivalent of 50% of maximum annual debt service (MADS).

Starting at the New Hampshire border, the turnpike is Maine's primary link to the rest of the United States, extending 109 miles to the capital in Augusta and serving the most populous southern and coastal regions of the state between York and the largest city of Portland. The state's three southernmost coastal counties (York, Cumberland, and Sagadahoc) are home to approximately 535,000 residents, over one-third of the state's population of 1.3 million.

Pro forma debt outstanding after issuance of the series 2020 bonds will be approximately $594 million, comprising $569 million of senior-lien debt and $25 million of subordinate-lien debt. As of Oct. 14, 2020, the authority had unrestricted cash and investments totaling about $24 million and $48 million in discretionary monies available to meet any obligation.

Credit overview

The rating reflects our expectation that authority management will implement measures to reduce expenses, defer capital spending, and use other means to maintain financial metrics consistent with the current rating, although at lower than historical levels in the near term. Toll revenues and traffic will be materially lower in fiscal 2020 as a result of the COVID-19 pandemic and its associated effects, which could result in a lower rating if we believe the authority's traffic levels and financial performance will remain diminished beyond our outlook horizon.

The rating reflects our opinion of the authority's very strong enterprise risk and strong financial risk profiles, albeit weakened in recent months. Our enterprise profile reflects the turnpike's essential role as the primary travel corridor to the state with very limited practical alternatives, connecting Maine with southern New England and to the populous and affluent metropolitan areas to the south. Our financial risk profile assessment is based on the authority's historically stable and steady revenue trends and our expectation that COVID-19 impacts on tolled traffic levels will cause a drag on financial performance in fiscal years 2020 and 2021. However, we expect that the authority can maintain future financial metrics consistent with the current rating beyond 2021, assuming a recovery in traffic levels and management's ability to adjust operating expenditures, defer capital spending for nonessential projects not yet started, and increase toll rates, if needed.

The rating also reflects a positive holistic adjustment to accurately reflect our view of the system as a mature, critical, and essential road network with stable demand characteristics, along with the authority's historically favorable financial results and conservative financial management practices through different economic conditions.

Key credit strengths, in our opinion, are the authority's:

- Very strong market profile, resulting from the toll road's historically mature and stable demand characteristics and important role in the state and region's production of historically strong financial performance metrics;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita with elevated unemployment (6.6%); and
- Very strong management and governance, reflecting the authority's conservative approach to financial and capital planning, history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently, and capable staff demonstrating considerable experience.

Key credit weaknesses, in our view, are:

- A material decline in toll transactions and revenues associated with the COVID-19 pandemic, which, even with a recovery in recent months, remain depressed;
- MTA's likely weaker-than-expected financial performance in 2020 and 2021 that, absent a strong recovery, could result in a prolonged weakening of debt service coverage (DSC) and increase in debt-to-net revenues to above 10x; and
- Adequate liquidity and financial flexibility, reflecting our expectation that the authority will maintain unrestricted cash reserves of more than 200 days' cash on hand and 7.5%-20.0% of debt.

The authority entered the pandemic demonstrating solid overall performance. In calendar 2019, system toll transactions were up 2.1% and net toll revenues were up 1.1% year over year. Since 2009, transaction growth has increased an average of 2.2% annually with only two years of declines (2011 and 2013) of less than 1%. Passenger cars transactions (81.7 million in 2019) account for 91% of traffic and 76% of toll revenue. Nonresident traffic volume is very important to the authority, with out-of-state electronic toll transponders generating 32% of transactions and 42% of electronic toll revenues in 2019 which, when combined with cash lanes collected from out-of-state users, further increases these shares. There is seasonality on this system (July and August transactions can be 130% of the monthly average) and the southernmost York toll plaza records 17% of all transactions and generates 40% of all toll system revenue. Nonetheless, a history of generally steady annual transaction growth and comparatively small declines during economic downturns provide a degree of credit stability during typical economic cycles.

Against this operating profile, the COVID-19 pandemic dramatically and negatively affected traffic and revenues following declaration of a national emergency on March 13, 2020, and implementation of travel restrictions and quarantine requirements for Maine visitors or returning residents. Compared with 2019 levels, April transactions were 54% lower and net fare revenue was 44% lower. Since then, mobility has improved and quarantine requirements have gradually been lifted recovery, with September transactions and net fare revenue compared with 2019 down 13.7% and 9.6%, respectively. Commercial truck traffic, which pays a higher average toll and has performed comparatively better (lower by 9%-12% per month compared with 2019), has mitigated more recent collections, combined with fewer volume discounts for largely in-state passenger vehicles, which dropped overall.

However, while trends are improving, the effects of COVID-19 on the state and regional travelers to the state are unpredictable and could further dampen or delay recovery to the authority's operational and financial performance. The overall financial impact will depend largely on the duration of the outbreak, state quarantine or social distancing requirements, and potential shifting consumer behavioral trends with no significant improvement assumed through the first quarter of 2021. Historical DSC (S&P Global Ratings-calculated) has ranged from 1.6x-1.9x over the past three years. Indenture DSC calculation excludes some operating expenses, e.g., preservation expenses at $12 million in 2019, resulting in DSC in the 3.0x range. S&P Global Ratings' DSC calculation, however, includes these expenses because they are cash expenses paid from operating cash flow.

We believe management-provided traffic and revenue forecasts are achievable but subject to uncertainty. Total vehicle transactions are estimated to be 22% lower for calendar 2020, with projected growth in 2021 of nearly 17%, followed by nearly 5% annual growth rates to reach 2019's transaction level of $90 million in 2023. Similarly, net toll revenues are expected to decline 22% in 2020, before increasing 18% in 2021, 4.6% in 2022, and 3.9% in 2023, to reach 2019's net toll revenues of $139.9 million. To the extent projected transactions are near forecast levels, financial forecasts provided by management show that the authority can maintain financial margins consistent with the current rating, with DSC ranging from approximately 1.40x-2.0x from 2021-2025.

The authority's debt and liabilities capacity assessment reflects our expectation that the authority will maintain debt-to-net revenues within 5x-10x as the turnpike moves through its 2019-2022 capital improvement plan (CIP) with approximately $350 million in additional debt planned through 2032. The CIP through 2023 totals $455 million, which management will fund with bond proceeds of the series 2020 bonds and cash flow from operations. In our opinion, the capital plan is prudent, with planned issuances over the next decade at manageable levels, whereas management projects DSC not to fall below 2x coverage, based on the indenture.

We assess the authority's liquidity and financial flexibility as adequate, with unrestricted days' cash on hand (S&P Global Ratings-calculated) at 272 and liquidity-to-debt at 12.2x for 2019.

Unrestricted cash and investment balance for the fiscal year ending Dec. 31, 2019, totaled $23.3 million, equating to approximately 109 days' of operating expenses (including preservation expenses) and 5% of debt. These metrics increase to 272 days' cash on hand--which we consider only adequate--and 12% when including a $35 million line of credit available for any purpose. This letter of credit is available for working capital purposes, has no balance outstanding, and expires Dec. 31, 2020.

Over the coming weeks and months, we will continue to monitor MTA's current and near-term financial performance as management implements mitigation measures as needed to counter weaker traffic levels and lower toll revenues.

Environmental, social, and governance (ESG) factors

The rating action incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor that is causing significant operating and financial pressures for the toll road system. We analyzed risks related to environmental and governance factors and consider them to be in line with our view of the standard for the toll road sector. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario

We could lower the rating if we believe traffic levels will remain materially depressed for an extended period, negatively affecting finances and resulting in financial metrics that are consistent with a lower rating.

Return to stable scenario

We could revise the outlook to stable in the next two years if activity continues to improve and our expectation of continued traffic recovery allows MTA to maintain financial metrics that are sustainable and consistent with the current rating.

Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and mobility. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions, but that it will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research at www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The U.S. economy has begun what looks to be a long, difficult journey to recovery from its pandemic-induced slump. With consumer spending proving largely resilient through summer 2020 (helped by federal fiscal stimulus) and unemployment--while still notably high—softening slightly more than S&P Global Economics had forecast, third-quarter GDP is poised for a steeper rebound than many market participants expected. S&P Global Economics forecasts a 29.5% bounce in third-quarter U.S. GDP (6.7% annualized rate), although that will only partially offset the massive losses in the first half of the year. Our current economic forecasts anticipate ending 2020 at a negative 4.0% real GDP growth rate in 2020, then rebounding to a slower growth phase heading into 2021, with 3.9% estimated for next year, down from 5.2% in June's economic forecast and weaker than our previous 2021 estimate of 6.2%. The unemployment rate declined to 8.4% in August 2020 from its post-1947 record high of 14.75% (in April 2020); however, we don't expect the unemployment rate to reach its pre-pandemic level until mid-2024. Our economic forecasts and macro credit implications associated with the pandemic assume a vaccine or effective treatment will be widely available in the second half of 2021. As this sluggish recovery unfolds, three big risks remain: no coronavirus vaccine yet available as the country heads into flu season, a lack of new fiscal stimulus, and trade tensions with China on the rise. (See "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020.)

We view the overall bond structure and protections to be slightly weaker than average, 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 DSR funded to only 50% of MADS with cash. Bond insurance surety policies are available up to the full debt service requirement, if needed. 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 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 2005-2019.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 23, 2020)		
Maine Tpk Auth tpk rev bnds		
Long Term Rating	AA-/Negative	Affirmed
Maine Tpk Auth tpk rev (AGM)		
Unenhanced Rating	AA-(SPUR)/Negative	Affirmed
Maine Tpk Auth TOLLFAC		
Long Term Rating	A+/Negative	Affirmed
Maine Tpk Auth (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.