



RATING ACTION COMMENTARY

Fitch Rates NC Turnpike Auth's Sr Rev Bond Anticipation Notes, Series 2020 'BBB'; Outlook Stable

Wed 30 Sep, 2020 - 11:53 AM ET

Fitch Ratings - New York - 30 Sep 2020: Fitch Ratings has assigned a 'BBB' rating to North Carolina Turnpike Authority's (NCTA) approximate \$499.5 million triangle expressway system senior lien turnpike revenue bond anticipation notes, series 2020. The Rating Outlook is Stable.

RATING RATIONALE

The rating reflects the Triangle Expressway's robust traffic and revenue growth ahead of expectations since opening in 2013 and the strong financial metrics associated with the financing of the Complete 540 project. Traffic declines from the coronavirus pandemic have been acute but of similar magnitude to declines on other Fitch-rated facilities and have improved since the trough in April 2020, staying relatively stable since July 2020. The rating accounts for the Complete 540 expansion project's commuter-based traffic profile, supported by an expanding service area with strong population and economic growth.

The rating is further supported by a commitment from the North Carolina Department of Transportation (NCDOT) to fund operating, maintenance and rehabilitation costs, if toll revenues are insufficient, strengthening the bonds' gross pledge. NCTA benefits from legal rate-making flexibility, but due to limited operating history, price sensitivity to increasing toll rates has not yet been adequately tested. Management has taken steps to reduce a sharply escalating debt service profile, although debt back-loading pressures NCTA's financial flexibility. Complete 540 will be supported by a construction completion guarantee from NCDOT during the construction phase.

The outbreak of the 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

NCDOT Completion Guarantee - Completion Risk: Stronger

Project construction is viewed to be straightforward, primarily comprising the design and construction of a 17.8 mile new toll-road facility consisting of six toll lanes. The design-build (DB) contracts for the three projects are fixed-price and date-certain, with the

DB contractors for the projects made up of joint ventures (JV) of experienced construction firms backed by adequate performance security packages. Design of all three projects began in 2019 and groundbreaking occurred in late 2019. In Fitch's view, the relatively straightforward nature of the construction, coupled with the construction completion guarantee from NCDOT, mitigates completion risk. Performance and payment bonds and liquidated damage payments for delays further mitigate completion risk.

Strong Market, Continued Growth - Revenue Risk (Volume): Midrange

Triangle Expressway and the planned Complete 540 extension will serve as a major alternative to congested toll-free roadways and also as a key route to the main employment center in the region, Research Triangle Park (RTP). Traffic on the existing expressway continues to show strong growth through the ramp-up period. Ample economic activity in the service area should contribute to future traffic growth, with the addition of two parkway interchanges on the existing expressway leading to continued ramp-up until 2023. However, with the limited number of toll roads in the area, there still exists the potential for sensitivity to annually increasing toll rates, given uncertainty as to overall demand and perceived value of time savings.

Rate-Making Flexibility Available - Revenue Risk (Price): Stronger

NCTA has flexibility to increase toll rates without any additional legal or regulatory approvals. The expressway has a set annual rate increase schedule through 2035, with rates increasing somewhat above inflation. NCTA maintains the ability to increase rates above the schedule. However, given the expressway's short life to date, there is uncertainty as to whether support exists for additional rate increases above the expressway's pre-determined rate schedule, if needed.

Gross Pledge Supports Asset - Infrastructure Development and Renewal: Stronger

The existing expressway is in new condition with low maintenance needs expected over the intermediate term and the planned Complete 540 extension is expected to have minimal initial capital needs as a brand-new facility when completed in mid-2023. Capital expenditures will be required over time to keep the road viable and NCDOT pledges to cover the expressway's operating, maintenance and rehabilitation expenses should toll revenues be insufficient. An independent engineer is required to perform annual inspections, supporting asset preservation. The expressway has sufficient capacity to support NCTA's long-term traffic forecast.

Back-loaded, Fixed-Rate Debt - Debt Structure: Midrange

NCTA's overall capital structure consists of fixed-rate amortizing debt with no refinance risk, though annual debt obligations escalate from 2019 to maximum annual debt service in 2049, including Complete 540 debt. Rate covenants are adequate, requiring toll increases to meet forward-looking minimum DSCRs of 1.3x and 1.1x on senior and total subordinate debt, respectively. Structural reserves are sufficient with a reserve fund surety on the existing senior lien bonds. The senior lien DSRF is sized to 50% of the lesser of (a) 10% of principal amount of the bonds, (b) MADS, or (c) 125% of the average annual principal and interest requirements with respect to the bonds. The TIFIA loan DSRF is sized to 100% of the lesser of three test. The TIFIA loan can spring to senior parity debt upon occurrence of a bankruptcy related event, supporting a lack of differentiation in attribute scoring between liens. TIFIA benefits from a deferability provision that provides additional payment flexibility.

Financial Profile

Continued strong growth on the existing expressway through ramp-up has led to senior-lien DSCR of 2.4x for fiscal 2019, or 1.8x on all debt including the 2009 TIFIA loan (refunded in December 2018) and reserve funding requirements. Fitch's rating case, which incorporates the expected debt for Complete 540, produces an average total DSCR (senior and TIFIA) of 2.1x over the forecast period from the first year of opening through the life of the senior debt. It is Fitch's view that, while dependent on growth, there is sufficient coverage cushion and liquidity support from the NCDOT-backed O&M and R&R guarantees to offset slower-than-expected growth.

PEER GROUP

Once stabilized, the expressway's closest peers would include similar stand-alone projects such as Colorado's E-470 Public Highway Authority (E-470, A/Stable) and San Joaquin Hills Transportation Corridor Agency (SJHTCA, BBB/BBB-/Positive). Triangle Expressway and its peers are all considered to be congestion reliever roadways in strong corridors that face competition from non-tolled alternate routes. The existing expressway's tolls, at a moderate \$0.20/mile for passenger cars, are more favorable than those of its peers, ranging from \$0.30-\$0.45/mile; however, the peers have greater franchise strength as they have substantially longer operating history.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Maintenance of solid financial metrics with total DSCR of at least 1.8x in Fitch's rating case for a sustained period;
- Continued NCDOT support and maintenance of the gross revenue pledge for any future financings;
- A track record of low demonstrated elasticity of demand with respect to rate increases.

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

- A prolonged negative shift in operating performance resulting in rating case total DSCR sustained at less than 1.6x;
- Reluctance by the authority to increase toll rates above the approved rate schedule if needed;
- Reduced support for the expressway by the State of North Carolina.

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 [\[https://www.fitchratings.com/site/re/10111579\]](https://www.fitchratings.com/site/re/10111579).

TRANSACTION SUMMARY

NCTA expects to issue approximately \$499.5 million in triangle expressway system senior lien turnpike revenue bond anticipation notes, series 2020. The notes will mature on Feb. 1, 2024 and principal is expected to be paid from a disbursement under the existing \$499.5 million subordinated Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. Interest on the BANs will be fully capitalized through maturity. In the unlikely event that NCTA is not able to draw under the TIFIA loan, NCTA has covenanted to use its best efforts to find an alternative refinancing solution, including available moneys, rollover of BANs and/or other obligations.

The BANs are being issued in anticipation of disbursements to be received under the TIFIA loan. Proceeds of the series 2020 BANs will be used to (a) finance, in part, the costs of land acquisition, design, construction and equipping of Complete 540 - Phase 1, consisting of the extension of the Triangle Expressway for approximately 17.8 miles from NC 55 Bypass in Apex to I-40, (b) pay capitalized interest on the Series 2020 BANs through maturity, and (c) pay financing costs.

CREDIT UPDATE

Performance Update

Traffic and revenue performance on the Triangle Expressway have experienced a substantial decrease since coronavirus-related restrictions were put in place in March, however, the magnitude of declines is generally within range of other commuter toll roads. Triangle Expressway transactions totaled 49.5 mil in fiscal 2020, a decline of 11.1% as compared to fiscal 2019. Revenues performed more favorably, due to the Jan. 2020 toll rate increase and the greater resiliency of commercial traffic, resulting in an almost 1% increase in fiscal 2020 revenues as compared to fiscal 2019.

The peak monthly transaction decline occurred in April 2020, posting a yoy decline of 61.2%. Monthly traffic has increased since April and showed slow recovery through June 2020, before stabilizing at a level approximately 35%-40% below 2019 monthly transaction levels. Traffic is expected to continue to recover as the phased reopening of businesses in NC and surrounding states continues, along with anticipated in-person schooling beginning in Oct. 2020.

NCTA's liquidity position is strong and the general reserve fund unrestricted balance totaled approximately \$63.9 million as of June 30, 2020. Unrestricted funds are ample and can support fiscal 2021 debt service payments 2.0x.

Construction of Complete 540 Phase 1 is divided into three projects with two construction groupings, though each project has a separate DB contract. Design of Complete 540 - Phase 1 began in 2019 and groundbreaking occurred in late 2019. Construction has continued as planned, with minimal disruptions due to the coronavirus. Design of the project is approximately 90% complete and construction is occurring in multiple locations along the corridor. Construction is approximately 26% complete and is on time and on budget. The Complete 540 project has a construction completion guarantee from NCDOT. The construction completion assurance agreement mitigates cost overruns in the event construction costs exceed those specified in the design-build contract. The obligation of NCDOT in regards to renewal payments and construction cost overruns is to be funded from amounts available in the State Highway Fund or the State Highway Trust Fund. Each such payment is subject to appropriation by the State and the availability of amounts in such fund.

FINANCIAL ANALYSIS

Fitch Cases

Fitch has developed three scenarios that incorporate the economic impact of the health crisis and a less robust recovery that may extend beyond 2022. Fitch Ratings' cases apply a sharp decline in 2020, with varying time to recover to 2019 levels. Fitch's rating case assumes 2020 traffic losses do not recover to 100% of 2019 levels until 2022. In 2023 and beyond, traffic grows at levels previously forecasted in Fitch's rating case. The coronavirus downside case assumes there is a lingering recessionary effect with traffic recovering to slightly below 2019 levels. Fitch's coronavirus severe downside case assumes a prolonged period of low performance levels for the next several years, with limited growth rates through 2024 when 2019 levels are fully reached.

Under Fitch's coronavirus rating case, NCTA's total DSCR averages 1.5x from fiscal year 2022 through 2024. For the coronavirus downside and severe downside scenarios, NCTA's total DSCR in 2022 through 2024 averages 1.5x and 1.2x, respectively. For more information on the stress tests, please see Fitch's report 'Coronavirus Stress Test: U.S. Small Network Toll Roads' dated July 6, 2020 and available at www.fitchratings.com.

SECURITY

The senior bonds are secured by a gross lien on revenue of the expressway. The TIFIA loan is secured by a lien on revenues after the payment of the senior lien bonds. TIFIA can spring to senior parity debt upon occurrence of a bankruptcy related event. The BANs are secured by disbursements from the TIFIA loan, monies available in the capitalized interest account and a gross lien on revenue of the expressway. Significant support is provided to both the debt and the overall system by North Carolina Department of Transportation's covenant to fund operating, maintenance and capital costs in the event expressway revenues are insufficient.

Asset Description

Triangle Expressway, North Carolina's first modern toll road, is an 18.8-mile all-electronic toll road that comprises the partially complete outer loop around the greater Raleigh area from I-40 in the north to the NC-55 Bypass in the south. The expressway is formally located in Wake and Durham counties and extends south from the NC-147/Interstate 40 interchange in Research Triangle Park to Northern Wake Expressway, and then northeast to the Northern Wake Expressway (NC-540)/NC-54 interchange and to the south to the NC-55 Bypass in Holly Springs.

The Complete 540 Southeast Extension is a proposed greenfield project that will extend the existing and operating Triangle Expressway at its current southern terminus near Holly Springs by approximately 17.8 miles to a junction with I-40 south of Raleigh. Phase 1 of the project would substantially complete the 540 outer loop around Raleigh up to the I-40/US 70 interchange and would also link the towns of Apex, Cary, Clayton, Garner, Fuquay-Varina, Holly Springs and Raleigh. In addition to connecting these towns and cities, the project is also anticipated to ease congestion on area roadways, including I-440, I-40, N.C. 42, N.C. 55 and Ten-Ten Road. The facility is expected to open to traffic in mid-2023.

DATE OF RELEVANT COMMITTEE

01 April 2020

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
North Carolina Turnpike Authority (NC)		
● North Carolina Turnpike Authority (NC) /Senior Lien Toll Revenues/1 LT	LT	BBB Rating Outlook Stable Affirmed
		BBB Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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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 – Effective March 24, 2020 to June 26, 2020 \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.1.0 (1)

Third-party Model ([24 March 2020](#))**ADDITIONAL DISCLOSURES**[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

North Carolina Turnpike Authority (NC)

EU Endorsed

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Mr. David Roy
Director of Finance
North Carolina Turnpike Authority
1578 Mail Service Center
Raleigh, NC 27699-1578

October 2, 2020

Dear Mr. Roy,

Re: Rating Verification for North Carolina Turnpike Authority (NCTA)'s TIFIA Loan Agreement for the Complete 540 Phase 1 Project and Senior Lien Turnpike Revenue Bonds

This letter is provided in response to a request that Fitch (see definition below) verify the ratings of North Carolina Turnpike Authority (NCTA)'s Senior Lien Turnpike Revenue Bonds and TIFIA Loan Agreement. As of today's date, Fitch verifies that the long-term rating for NCTA's Senior Lien Turnpike Revenue Bonds is '**BBB**', Stable Outlook and the long-term rating for the TIFIA Loan is '**BBB**', Stable Outlook. These ratings are listed and updated on Fitch's public website under:

<https://www.fitchratings.com/entity/north-carolina-turnpike-authority-nc-87028352#securities-and-obligations>.

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If we can be of further assistance, please contact Stacey Mawson, Director, at (212) 908-0678.

Sincerely,

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