Moody's

Rating Action: Moody's upgrades North Carolina Turnpike Authority (Monroe Expressway)'s senior secured and TIFIA loan ratings to Baa2 from Baa3; outlook revised to stable from positive

25 Oct 2023

New York, October 25, 2023 -- Moody's Investors Service has upgraded to Baa2 from Baa3 the ratings assigned to North Carolina Turnpike Authority (Monroe Expressway)'s $143.2 million senior lien toll revenue bonds, and its $166.5 million TIFIA loan. The rating outlook was revised to stable from positive.

RATINGS RATIONALE

Today's rating action reflects Monroe Expressway's continuing strong traffic and revenue performance which have led to sound credit metrics that outpaced Moody's expectation at financial close. Moody's total Net Revenues debt service coverage ratio (DSCR) was 2.1x in fiscal year 2022 (June 30), up from 1.3x in 2021. Total debt service coverage ratio under the bond ordinance, which does not include O&M expenses and renewal and replacement expenses, was 3.7 for fiscal year 2022 (June 30), up from 2.8x in fiscal 2021. Toll revenue growth has been strong since the November 2018 opening of the road with total revenues in fiscal 2021 (June 30) slightly above the 2022 T&R forecast. Even though more than 80% of overall traffic activity is expected to come from passenger vehicles, traffic on the road has rapidly recovered to above pre-COVID levels. We view this as a positive sign that the road is able to capture traffic from the adjacent toll-free US 74. Going forward, we expect the rate of growth to moderate as the road transitions from ramp up to stabilization, but the trajectory remains favorable and in line with what is required for the road to more comfortably manage projected debt service and O&M expenses over the next several years.

The rating action also considers our view that, in addition to the good traffic and revenue growth, the road has retained more cash than initially anticipated, which provides a substantial liquidity cushion. North Carolina Turnpike Authority (NCTA) has maintained a robust balance of the Ramp-Up Reserve, which was at $53.6 million in fiscal 2022 and represents nearly 4x average annual debt service ($13.5 million) over the next five years. In addition to 12-month debt service reserves, restricted O&M and R&R reserves, and a $22 million unrestricted general reserve, the road has and is expected to maintain robust internal liquidity through at least its first three-five years of steady state operations.

The credit profile remains constrained by high leverage and more limited standalone flexibility when incorporating the payment of operating and maintenance requirements - i.e., approximately 1.0x coverage of O&M/R&R requirements through 2030. The rating also reflects the somehow limited operating track record of the road and acknowledges the fast growing but less densely populated nature of the service area along the alignment.

The ratings continue to reflect the benefit of strong support from the State of North Carolina (Aaa stable) and its agency the North Carolina Department of Transportation (NCDOT), which has funded a meaningful portion of capital spending and provided a contingent guarantee to cover shortfalls in operating and maintenance (O&M) and renewal and replacement (R&R) expense and reserve requirements. This support, combined with substantial project-level liquidity and favorable traffic performance and a consistent toll setting record to date, balance risk from high standalone leverage and the still limited operating history.

RATING OUTLOOK

The stable outlook reflects the our expectation that total revenues will continue to increase in line with management and Moody's expectations and will be sufficient to meet the toll road's escalating debt service.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Traffic and revenue growth continues to significantly exceed our current projections resulting in a total net revenues debt service coverage ratio above 1.5x on a sustained basis;

- If the project significantly deleverages, with an adjusted debt ratio below 7.0x, while maintaining a strong liquidity position.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Lower than projected revenue as a result of lower transaction volumes or lower toll rates

- Weaker financial or policy support by the state or the NCDOT

- Unexpected additional projects that will lead to higher leverage levels

LEGAL SECURITY

The senior lien toll revenue bonds benefit effectively from a gross pledge as the NCDOT has provided a contingent guarantee to cover O&M and R&R reserve requirements. The O&M requirement represents one-fourth of the total budgeted operating expenses for the next fiscal year and the R&R reserve requirement is equal to approximately 100% of the total budgeted R&R expenses for the current fiscal year plus 10% of the budgeted R&R expenses for the next 9 fiscal years. The TIFIA loan, which also benefits from the NCDOT contingent guarantee, has a subordinate lien on the same security pledge, except following a bankruptcy related event, in which case TIFIA lien springs to parity with that of the senior bonds.

If at any time the amounts in either the Operating Reserve Fund or the R&R Fund are not equal to the reserve requirement, then subject to the availability of funds, NCDOT will pay the amount necessary so that amounts in these reserve funds equal the requirement. The obligation to replenish Operating Reserve Fund is to be funded from amounts in the State Highway Fund and the obligations to replenish the Renewal and Replacement Fund or pay for unexpected construction costs are to be funded from 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 the respective funds.

The flow of funds is an open loop, which allows receipts to flow out of the bottom bucket subject to meeting certain conditions such as all reserve funds need to be fully funded at their respective requirements as well as meeting a Senior Debt Service Coverage Ratio test of 140%, a Total Debt Service Coverage Ratio test of 130% and a TIFIA Loan Life Coverage Ratio Test of 130% amongst others. If funds are released, an amount equal to the amount transferred to the unpledged account will be used to repay TIFIA.

The system has a cash funded debt service reserve requirement for both the senior revenue bonds and the TIFIA loan which are funded at the lesser of 10% of principal, maximum annual debt service or 125% of average annual debt service.

PROFILE

The Monroe Expressway is a single asset, new 19.8 mile controlled-access toll road located southeast of Charlotte, running from US 74 in Union County, North Carolina. The facility runs roughly parallel to US 74, creating a high-speed alternative to the non-tolled commercial corridor along US 74. US 74 is the major east-west route connecting the Charlotte region to the North Carolina coast and the port at Wilmington. The road is also the primary connection between Union County and Mecklenburg County (the City of Charlotte). The Monroe Expressway's main purpose is to relieve congestion on US 74. The toll road includes four travel lanes, a depressed grass median and eight interchanges.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in

May 2023 and available at https://ratings.moodys.com/rmc-documents/403120. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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 on https://ratings.moodys.com/rating-definitions.

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