S&P Global
Ratings

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Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

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Table Of Contents

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Credit Profile		
US$424.113 mil TIFIA loan ser 2024 due 07/01/2063		
Long Term Rating	BBB/Stable	New
US$252.755 mil sys sr lien tpk rev (tax-exempt current interest bnds) ser 2024A due 01/01/2058		
Long Term Rating	BBB/Stable	New
US$120.628 mil sys sr lien tpk rev (tax-exempt capital appreciation bnds) ser 2024B due 01/01/2058		
Long Term Rating	BBB/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'BBB' long-term rating to North Carolina Turnpike Authority's (NCTA) proposed $373.4 million of series 2024A and B senior-lien revenue bonds and $424.4 million subordinate series 2024 Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.
- At the same time, we affirmed our 'BBB' underlying long-term rating (SPUR) on NCTA's senior turnpike system revenue bonds and 'BBB' rating on the NCTA's subordinate series 2021 TIFIA loan.
- The outlook is stable.

Security

A pledge of the expressway's receipts secures bondholders. The authority's TIFIA loan provisions allow the loan to spring to parity with senior obligations upon a bankruptcy-related event. Because of these considerations, we equalize the senior- and subordinate-lien ratings.

NCTA has approximately $1.5 billion of total rated debt outstanding on the Triangle Expressway System at Dec. 1, 2023, consisting of approximately $1.0 billion of senior-lien turnpike revenue bonds and approximately $533.0 million of TIFIA loans outstanding.

Credit overview

The ratings reflect our view of the toll road's strong enterprise risk profile and adequate financial risk profile. Our enterprise risk profile determination incorporates this toll road operating in a relatively large metropolitan statistical area (MSA) that provides important links within the Raleigh-Durham region, with historically strong traffic demand for a relatively new facility, notwithstanding modest adverse impacts of the COVID-19 pandemic. Our financial risk profile determination incorporates debt service coverage (DSC) metrics that we expect will be pressured but remain at adequate levels, supported by strong state support for operations and maintenance (O&M) expenses, if needed. Our financial risk profile assessment also considers the Triangle Expressway system's history of consistently exceeding forecasts.

The Triangle Expressway system extends from the interchange of Interstate 40 (I-40) and North Carolina Highway (NC) 147 or NC 885 on the north end to the NC 55 bypass near Holly Springs, N.C., on the south end, for a total of 18.8 miles. The road also extends the planned and partially complete outer loop around the greater Raleigh area. Travelers use a limited-access, six-lane, high-grade facility from I-40 to the NC 55 bypass, reducing congestion on the heavily used and toll-free NC 55. The expressway also improves access to the Research Triangle Park and other employment centers. The initial plan of the Complete 540 project will be to extend the expressway to I-40 southeast of Raleigh. Complete 540 Phase 1 is expected to open to traffic for tolling on or near July 2024, which we believe is achievable.

Key credit weaknesses, in our view, are:

- Relatively high toll rates and escalating debt service requirements that rely on annual revenue growth in excess of 10% through 2027 to maintain steady financial margins;
- DSC levels that we believe could be pressured in the short term due to rising annual debt service requirements and the ramp-up of Phase 1, but that we expect will eventually be maintained in the 1.10x-1.25x range through 2030; and
- A high debt burden that could potentially increase if the authority faces higher project costs than currently anticipated and debt finances those needs.

Key credit strengths, in our opinion, include:

- Extremely strong service area economic fundamentals, reflecting a populous and expanding MSA, with favorable levels of economic activity as measured by GDP per capita;
- Strong state support to replenish the O&M reserve fund and the renewal and replacement fund, if needed, and liquidity reserves in the general fund of approximately $74.3 million as of June 30, 2023; and
- Very strong management and governance that has established a solid record of managing and operating its assets. Management has conservatively forecast the initial Triangle Expressway ramp-up period, and we expect this strong oversight and prudent governance will continue through completion of the Complete 540 project.

Environmental, social, and governance

We assessed NCTA's environmental, social, and governance risks and opportunities relative to the expressway's market position, management and governance, and financial performance, and determined that all are neutral in our credit rating analysis. We note the Raleigh MSA's positive social capital due to favorable demographic trends, namely rapid population growth, positions the expressway to benefit from strong demand to the extent it translates into higher transactions and revenues.

Outlook

The stable outlook reflects our view that the Triangle Expressway will be able to maintain financial metrics consistent with an adequate financial risk profile as revenue-generating segments from phases 1 and 2 of the Complete 540 project come on line.

Downside scenario

Although unlikely, we could lower the rating if the authority were to consistently underperform projected revenue forecasts or face project cost overruns, pressuring DSC (S&P Global Ratings-calculated) and debt-to-EBIDA and resulting in a weaker financial risk profile.

Upside scenario

Although unlikely, we could raise the rating during the two-year outlook period if traffic and revenue levels continue to meet or exceed current forecasts, resulting in improved financial metrics consistent with a strong financial risk profile.

Credit Opinion

We believe the system's overall market position reflects a toll road operating in its service area that provides important links in the Raleigh-Durham MSA, tempered by what we view as a high overall toll structure. However, NCTA has a record of achieving its financial and operational goals and it maintains strong cash reserves. Actual toll transactions in fiscal 2022 were 99% of budgeted expectations, while actual pledged revenues were 103% of budget. Fiscal 2023 unaudited results tracked in-line with budgeted expectations. Fiscal 2024 year-to-date results through November 2023 exceeded budgeted expectations, and we expect traffic and revenue to perform in-line with budget or better for the rest of fiscal 2024 and beyond. In addition, we consider state support to be strong. The North Carolina Department of Transportation, through its highway transportation fund, has agreed to cover any cost overruns, as well as replenish the O&M reserve fund and the renewal and replacement fund. NCTA has the full ability to adjust toll rates and has set annual rate increases aligning with inflation expectations.

Our financial risk profile assessment considers both historical performance and pro forma figures, which are based on management's forecasts related to the additional debt to fund the Complete 540 project. The pro forma data reflect our expectation of the high debt burden of approximately $1.5 billion, $2.3 billion after the issuance of the series 2024 bonds the series 2024 TIFIA loan; anticipated rising annual debt service obligations, increasing from approximately $42.4 million in fiscal 2023 to maximum annual debt service (MADS) of $185.8 million in 2057; and the data assume annual increases in pledged revenues in excess of 10% through 2027, 12% in fiscal 2030 after Complete 540 Phase 2 opens to traffic, and approximately 5% thereafter, which takes into account both Consumer Price Index-based rate increases and organic growth in tolled transactions. There is risk associated with rising debt service requirements that rely on strong annual growth in revenues, transactions, and tolls to meet base-case projections of DSC, particularly with the new tolled segment having uncertain traffic levels. However, actual results have historically exceeded forecasts on the operational segment of Triangle Expressway and we believe that transactions will continue their positive trajectory, albeit from a lower base. We expect DSC will be maintained at levels we consider adequate, in the 1.10x-1.25x range. In addition, we expect debt and liabilities capacity to be maintained at levels we consider vulnerable, in the 20x-30x range. We also expect unrestricted liquidity balances will be maintained at levels we consider strong, in excess of 250 unrestricted days' cash on hand.

Bond Provisions

The rate covenant requires revenues in each fiscal year to equal at least 130% of the long-term debt service requirements for the senior-lien debt. In addition, revenues must equal 110% of the long-term debt service requirements on the senior-lien, subordinate, and TIFIA debt for each fiscal year; and the necessary deposits to the senior, subordinate, and TIFIA reserve accounts.

NCTA can issue additional senior-lien bonds if the authority complies with its rate covenant. In addition, the authority must show that forecast revenue in each fiscal year is at least 140% of the debt service requirement with respect to all senior-lien debt and the proposed debt issuance; and that the revenues are at least equal to 130% of the debt service requirement with respect to all senior-lien and subordinate-lien debt, the TIFIA debt outstanding, and additional debt; and the required deposits to the senior, subordinate, and TIFIA reserve accounts are met. Bondholders also benefit from a debt service reserve fund on the senior-lien bonds funded with surety policies.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 30, 2023)		
North Carolina Tpk Auth (Triangle Expwy) sr ln toll rds br (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds brs (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (ASSURED GTY)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds & brs (AGM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) (2 019 TIFIA) toll rds br		
Long Term Rating	BBB/Stable	Affirmed
North Carolina Tpk Auth (Triangle Expwy) (2021 TIFIA) toll rds brs		
Long Term Rating	BBB/Stable	Affirmed

Many issues are enhanced by bond insurance.