

Rating Action: Moody's assigns Aa1 to North Carolina Turnpike Authority's Series 2019 state appropriation revenue bonds; outlook stable

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New York, October 30, 2019 -- Moody's Investors Service has assigned a Aa1 rating to North Carolina Turnpike Authority's (NCTA) \$115 million Triangle Expressway System Appropriation Revenue Bonds, Series 2019. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on NCTA's state appropriation revenue bonds is based on the State of North Carolina's obligation to make an annual appropriation from the state's highway trust fund for the repayment of debt service. The one-notch distinction in the rating from the State of North Carolina's Aaa general obligation rating incorporates the essential nature of the road projects financed by the bonds and the moderately strong legal structure, including the risk of non-appropriation. Although the state appropriation revenue is not subject to annual reauthorization, the state General Assembly reserves the right to reduce or suspend appropriations to NCTA.

RATING OUTLOOK

The NCTA state appropriation revenue bonds carry the stable outlook of the State of North Carolina, which is based on the state's continued economic expansion driven by healthy employment and population growth and conservative fiscal management and budgeting practices.

The state has not yet adopted a budget for the fiscal 2019-21 biennium. Despite not having a budget in place for fiscal 2020, a 2016 amendment to the State Budget Act permits the state budget director to continue allocating funds for expenditures at the prior fiscal year's recurring levels without any further legislative action. Government operations have continued and funds have been appropriated at levels authorized for fiscal 2019, which will be the case until the fiscal 2019-21 Appropriations Act is enacted. At this time, the late state budget does not affect the state's ability to meet debt service requirements, and state operations have not been interrupted given the continuing appropriation. The state has the flexibility to address some spending priorities with smaller bills until the final budget is enacted and has passed several stand-alone spending measures for various purposes.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Given that the bonds are rated based on the state's Aaa rating and notched once off the state's rating due to the risk of non-appropriation, an upgrade is unlikely

FACTORS THAT COULD LEAD TO A DOWNGRADE

- A downgrade of the State of North Carolina's rating
- Non-appropriation of needed funds for debt service

LEGAL SECURITY

The bonds are secured by a \$25 million annual appropriation to NCTA from the state highway trust fund for the Triangle Expressway System project. The continuing appropriation from the fund requires no additional acts of the state General Assembly. However, the state General Assembly reserves the right to reduce or suspend appropriations to NCTA.

Highway trust fund revenue, which amounted to \$1.5 billion in fiscal 2018, consists of transportation-related taxes and fees. From fiscal 2013 to 2018, highway trust fund revenue grew by a compound annual growth rate of 6.5%. The primary sources of revenue in the fund are a 3% highway use tax levied on the retail value of motor vehicles and approximately 29% of motor fuels tax revenue. Together, these two sources provide 89% of total revenue in the trust fund. The trust fund is primarily used for pay-as-you-go capital financing for the

state's highway and transportation projects as well as debt service on the state's general obligation bonds for highway purposes, of which \$101 million was outstanding at the end of fiscal 2018.

USE OF PROCEEDS

Proceeds from the Series 2019 bonds will be used to help finance an extension to the Triangle Expressway System. The issuance of the Series 2019 bonds requires approval from the North Carolina Local Government Commission (LGC), which is still pending.

PROFILE

NCTA was created by the state in 2002 to provide alternative financing for key transportation projects. The authority falls under the North Carolina Department of Transportation as an agency of the state. NCTA is authorized to design, establish, purchase, construct, operate, and maintain no more than 11 projects. The nine-member board that serves as the governing authority for NCTA is comprised of four appointments from the state General Assembly, four appointments from the Governor, and the state Secretary of Transportation. Bonds issued by NCTA are subject to approval by the LGC, which is a division of the State Treasurer's office responsible for oversight of local government finance in the state.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Pisei Chea
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Genevieve Nolan
Additional Contact
State Ratings

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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