



Fitch Upgrades NC Turnpike Authority State Appropriation Revenue Bonds to 'AA+'; Outlook Stable

Fitch Ratings-New York-07 November 2019: Fitch Ratings has assigned a 'AA+' rating to the following bonds of the North Carolina Turnpike Authority (NCTA):

--\$115 million Triangle Expressway System Appropriation Revenue Bonds, Series 2019.

The bonds are expected to be sold via negotiation November 20, 2019.

In addition, Fitch has upgraded the rating on \$20.21 million State Annual Appropriation Revenue Bonds, Series 2009B (federally taxable-issuer subsidy - Build America Bonds) to 'AA+' from 'AA'.

The Rating Outlook is Stable

SECURITY

The bonds are special obligations of the authority, secured by and payable from a \$25 million state appropriation from the state highway trust fund (HTF). No additional security is provided by tolls or other revenues of the Triangle Expressway System, or any other funds held under the General Revenue Bond Trust Agreement.

ANALYTICAL CONCLUSION

The 'AA+' rating on NCTA's Triangle Expressway and State Annual Appropriation bonds is based on a standing appropriation from the state of North Carolina's HTF, a major fund of the state. The bonds are rated one notch below the state's 'AAA' Issuer Default Rating (IDR), reflecting the slightly higher degree of optionality associated with payment of appropriation-linked debt. The upgrade of the 2009B bonds partly reflects the greater weight given to the relationship between the state Treasurer's office, which has long demonstrated conservative management of the state's debt, and the NCTA. The NCTA is a part of the state's Department of Transportation (DOT). The Treasurer's office reviews the NCTA's disclosure and includes the fixed appropriations to the NCTA for debt service in its debt affordability studies.

North Carolina's 'AAA' IDR reflects its low liabilities, conservative financial operations and long-term prospects for continued economic expansion and diversification.

KEY RATING DRIVERS

FIXED STATE APPROPRIATION: The 2019 bonds will be structured as capital appreciation bonds (CABs) and will be paid from a \$25 million annual appropriation to the NCTA for the Triangle Expressway System. This set appropriation is currently fully leveraged to pay the outstanding series 2009 bonds and series 2018 bonds (unrated by Fitch). Debt service will begin after the outstanding bonds fully mature in 2039.

IMPORTANT PROJECT TO STATE: The 2019 bonds are a piece of a financing package that will fund phase 1 of the extension (Complete 540) of the Triangle Expressway, which serves as a major alternative to congested free roads and a key route to the Research Triangle Park (RTP), a major state employment center. The state has demonstrated its commitment to the project through construction and renewal and replacement guarantees.

LINK TO STATE IDR: The NCTA is an agency of the state within the state Department of Transportation (DOT). The one notch distinction from the state of North Carolina's 'AAA'/Stable IDR reflects the additional optionality associated with the payment of appropriation debt. While the \$25 million appropriation does not require annual action by the legislature, it is subject to change by a future legislature.

RATING SENSITIVITIES

The rating on the North Carolina Turnpike Authority Triangle Expressway and State Annual Appropriation bonds is sensitive to changes in the credit quality of the state of North Carolina, to which it is linked, and to the continued appropriation to the NCTA by the state for debt service.

CREDIT PROFILE

FIXED STATE APPROPRIATION TO TURNPIKE AUTHORITY

The rating on the authority's Triangle Expressway and State Annual Appropriation revenue bonds reflects the strength of the pledged revenue stream -- an ongoing appropriation from the state of North Carolina's HTF. Appropriated state funds for debt service are transferred quarterly from the HTF to the Authority in equal installments of \$6.25 million, after set-asides for debt service on state GO bonds issued for transportation purposes, on parity with other HTF statutory commitments. Highway trust fund revenues are generated by a 3% highway use tax on motor vehicles purchased or titled in the state, 29% of all motor fuel tax revenues, and a portion of certain fees shared for the issuance of certificates of title. fiscal 2019 revenues totaled \$1.6 billion. Transfers from the HTF to the state general fund are not permitted.

The 2019 bonds are structured as CABS with no debt service until after the final maturity of the 2018 bonds in 2039. At that point, the \$25 million appropriation will be available for debt service on the 2019 bonds. The current bonds have parity to the outstanding bonds; however, if the prior bonds were not paid according to their debt service schedule, they would be paid before the current issuance. The appropriation obligation of the state is limited to the HTF.

IMPORTANT STATE PROJECT

The existing toll road serves as a major alternative to congested free roads and a key route to the Research Triangle Park. The current project (Complete 540) will extend the toll road in two phases. The state's commitment to the project includes a construction guaranty. A guarantee of operations and maintenance expenses, and a renewal and replacement guaranty by NCDOT demonstrates the

states continued commitment. The approximately \$1 billion project will be financed by the issuance of approximately \$378 million in senior lien revenue bonds and \$502 million in TIFIA loans (both rated BBB), in addition to the series 2019 appropriation bonds.

For more information on the state of North Carolina, please see the press release, "Fitch Rates North Carolina's \$600MM GOS 'AAA'," dated Aug. 29, 2019. For more information on the Triangle Expressway Project, please see "Fitch Upgrades NC Turnpike Auth's Sr Rev Bonds to 'BBB'; Assigns 'BBB' to Sr Revs and TIFIA Loan," dated Oct. 31, 2019.

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