

RatingsDirect®

Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

Primary Credit Analyst:

Kenneth P Biddison, Centennial + 1 (303) 721 4321; kenneth.biddison@spglobal.com

Secondary Contact:

Todd R Spence, Farmers Branch (1) 214-871-1424; todd.spence@spglobal.com

Table Of Contents

Rating Action

Negative Outlook

Credit Opinion

Related Research

Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

Credit Profile

US\$499.46 mil triangle expwy sys sr ln tpk rev BANs ser 2020 due 02/01/2024

<i>Long Term Rating</i>	BBB/Negative	New
-------------------------	--------------	-----

North Carolina Tpk Auth toll rds & br (AGM)

<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
--------------------------	--------------------	----------

North Carolina Tpk Auth toll rds & br (AGM)

<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
--------------------------	--------------------	----------

North Carolina Tpk Auth toll rds & br (AGM)

<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
--------------------------	--------------------	----------

Rating Action

S&P Global Ratings assigned its 'BBB' long-term rating to North Carolina Turnpike Authority's (NCTA) Triangle Expressway proposed \$499.5 million senior-lien turnpike revenue bond anticipation notes (BANs), series 2020. At the same time, S&P Global Ratings affirmed its 'BBB' long-term rating and underlying rating (SPUR) on NCTA's revenue bonds outstanding and Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. The outlook is negative.

The negative outlook reflects the severe and ongoing disruption associated with the COVID-19 pandemic and contraction of the global and U.S. economies that is likely to negatively affect the authority's operating and financial performance over the near-to-intermediate term. For additional information, see "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic," published March 26, 2020, on RatingsDirect.

The rating on the BANs reflects our view of the authority's long-term credit characteristics, as well as its ability to access the TIFIA to take out these notes. Under the already executed TIFIA loan, amounts on deposit in the capitalized interest account, and gross receipts secure the 2020 BANs.

A pledge of the expressway's receipts secures bondholders. The rate covenant requirement is that revenues in each fiscal year must 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 it 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 of \$34.9 million on the senior-lien bonds funded with surety policies.

Credit overview

The rating reflects our view that management will implement measures to adapt and moderate impacts from reduced travel, and that we believe forecast financial metrics will remain consistent with the current rating. However, a material and sustained decline in toll revenues and traffic as a result of the COVID-19 outbreak and associated effects could result in a downward rating action if we believe the authority's financial metrics will be diminished for longer than we estimate. For more information, see "Activity Estimates For U.S Transportation Infrastructure Show Public Transit And Airports Most Vulnerable To Near-Term Rating Pressure," June 4, 2020, and "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," July 22, 2020.

The rating is also based on our opinion 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 area that provides important links within the Raleigh-Durham region, with historically strong traffic demand for a relatively new facility. Our financial risk profile determination incorporates debt service coverage (DSC) metrics that we expect will be pressured but remain at a level we consider adequate, supported by the strong state support for operation and maintenance (O&M) expenses, if needed. Our financial risk profile assessment also considers the Triangle Expressway System's history of consistently exceeding forecasts, although uncertainty remains as a result of COVID-19.

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 metropolitan region, offset by what we view as a high overall toll structure. Leading into the COVID-19 outbreak, fiscal year-to-date transactions on the expressway through February 2020 were up 8% compared with the same period in 2019. However, quarantines, remote working, mobility restrictions, and other associated effects of the pandemic-induced economic disruption resulted in severe drops in traffic and revenue beginning in March 2020. Total system transactions continue to be affected, with August transactions and revenues down approximately 37%. We note that NCTA has approved 2%-3% rate increases every year, which is not expected to change; this provides predictability and removes potential difficulties associated with rate-setting processes although the road's exposure to competition from free alternative routes could result in dampened demand. However, NCTA has a record of achieving its financial and operational goals, and maintains strong cash reserves. In addition, there is strong state support. 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.

Our financial risk profile assessment considered both historical performance, and pro forma figures, which are based on management's forecasts related to the additional debt to fund the Complete 540 Phase 1 project. The pro forma data reflect our expectations of the increased debt burden; anticipated rising annual debt service obligations; aggregate debt outstanding, including the TIFIA loan and BANs; and assumes increases in demand and related revenue growth. The COVID-19 impacts include revenue estimates remaining below fiscal 2019 levels until fiscal 2022, with the net effect of revenues being down approximately \$19 million in fiscal 2021 materially worsening DSC in the near term. 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 exceeded forecasts on the operational segments and we believe that, while dampened in the short term, transactions will resume their positive trajectory, albeit from a lower base, and over time return to historical growth rates.

The Triangle Expressway System extends from the interchange of Interstate 40 (I-40) and NC Highway 147 on the north end to the NC Highway 55 (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 near Holly Springs, reducing congestion on the heavily used 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. The Complete 540 Phase 1 project is on-time and on-budget with approximately \$336 million spent (representing 26% of the plan of finance budget), and \$91 million of contingency available.

Key credit weaknesses, in our opinion, are:

- Exposure to potentially prolonged weak or unpredictable toll-road activity as a result of COVID-19 outbreaks and lingering associated effects (such as the pandemic-induced recession, shifting travel restrictions, stay-at-home and social distancing restrictions, or behavioral changes with respect to travel), making effective financial budgeting and planning challenging; and
- A moderately aggressive debt service schedule that relies on steady traffic and increased toll rates on a single asset to meet escalating annual requirements.

Key credit strengths, in our view, are the authority's:

- Liquidity reserves in the general fund of approximately \$63.9 million as of June 30, 2020, and the strong state support to replenish the O&M reserve fund and the renewal and replacement fund if needed;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita but recent increases in unemployment associated with impact of the pandemic-induced recession; and
- Very strong management and governance that has established a record of managing and operating its assets. Management conservatively forecast the initial Triangle Expressway ramp-up period, and we expect this strong oversight and prudent governance will continue through the Complete 540 project.

Environmental, social, and governance factors

Our rating incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor in our environmental, social, and governance framework that is resulting in significant operating and financial pressures for NCTA. We analyzed the authority's risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the toll road sector. We will continue to evaluate these risks as the situation evolves.

Negative Outlook

Downside scenario

We could lower the rating if we believe that traffic and revenue will fall materially below forecasts, suggesting a weaker market position or lower net revenues that pressure DSC and debt to net revenues.

Return to stable scenario

We could revise the outlook to stable within the next two years if toll activity and revenue trends improve and grow at levels sufficient to support the increasing debt service requirements and O&M expenses as forecast.

Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and transportation-related activity levels. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which might not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The U.S. economy has begun what looks to be a long, difficult journey to recover from its pandemic-induced slump. With consumer spending proving largely resilient through the summer of 2020 (helped by federal fiscal stimulus) and unemployment--while still notably high--softening a bit more than S&P Global Economics had forecast, third-quarter GDP is poised for a steeper rebound than many market participants expected. S&P Global Economics expects a 29.5% bounce in third-quarter U.S. GDP (6.7% annualized rate), although that will only partially offset the massive losses in the first half of the year. Our current economic forecasts anticipate ending 2020 at a negative 4.0% real GDP growth rate and rebounding to a slower growth phase heading into 2021 with 3.9% estimated for next year, down from 5.2% in June's economic forecast and weaker than our previous 2021 estimate of 6.2%. The unemployment rate declined to 8.4% in August from its post-1947 record high of 14.75% (in April 2020); however, we don't expect the unemployment rate to reach its pre-pandemic level until mid-2024. Our economic forecasts and macro credit implications associated with the pandemic assume a vaccine or effective treatment is widely available in the second half of 2021. As this sluggish recovery unfolds, three big risks remain: no coronavirus vaccine yet available as the country heads into flu season; a lack of new fiscal stimulus; and trade tensions with China on the rise. (See "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead," Sept 24, 2020.)

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 29, 2020)		
North Carolina Tpk Auth toll rds brs		
Long Term Rating	BBB/Negative	Affirmed

Ratings Detail (As Of September 29, 2020) (cont.)

North Carolina Tpk Auth toll rds brs (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth toll rds brs (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth toll rds & br (ASSURED GTY)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth triangle expy sys sr lien (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Turnpike Auth (Complete 540 Phase 1 Proj)		
<i>Long Term Rating</i>	BBB/Negative	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.