

RatingsDirect®

Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

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Credit Profile

US\$499.462 mil TIFIA loan ser 2021 due 01/01/2050		
<i>Long Term Rating</i>	BBB/Negative	New
North Carolina Tpk Auth (Triangle Expwy) toll rds br		
<i>Long Term Rating</i>	BBB/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) 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 the North Carolina Turnpike Authority's (NCTA) proposed \$499.5 million series 2021 Transportation Infrastructure Finance and Innovation Act (TIFIA) loan, issued for the Triangle Expressway. At the same time, S&P Global Ratings affirmed its 'BBB' long-term rating and underlying rating (SPUR) on NCTA's existing revenue bonds, TIFIA loan, and bond anticipation notes (BANs), issued for the expressway. The outlook is negative.

The negative outlook reflects the ongoing disruption associated with the COVID-19 pandemic, such as with potentially slower recovery in passenger-traffic volumes due to decreased levels of commuting or travel for business or other purposes because of increased use of remote-work environments and technology, and contraction of the global and U.S. economies that will likely negatively affect the authority's operating and financial performance over the near-to-intermediate term through the recovery.

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.

The series 2021 TIFIA loan will replace the existing TIFIA loan with lower rates for cost savings. A pledge of the expressway's receipts secures bondholders. 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 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 effects from reduced travel from COVID-19, and that we believe forecasted 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 negative rating action if we believe the authority's financial metrics will be diminished for longer than we estimate. As the situation evolves, we will update our assumptions and estimates accordingly. For additional information, see "Updated Activity Estimates For U.S. Transportation Infrastructure Show Public Transit And Airport Operators Still Face A Long Recovery," published Jan. 13, 2021, on RatingsDirect.

The rating also reflects 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 statistical area (MSA) that provides important links within the Raleigh-Durham region, with historically strong traffic demand prior to the pandemic 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 that 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 because 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 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. 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 reflects our expectations of the increased debt burden; anticipated rising annual debt service obligations; aggregate debt outstanding, including the TIFIA loan and BANs; and the data assumes increases in demand and related revenue growth. The COVID-19 effects include revenue estimates remaining below fiscal 2019 levels until fiscal 2022 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 historically 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 North Carolina Highway 147

(NC 147) 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 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.

Key credit weaknesses, in our opinion, are:

- Potentially slower recovery in passenger-traffic volumes due to decreased levels of commuting or travel for business or other purposes because of increased use of remote-work environments and technology, which could pressure financial metrics beyond fiscal 2021, absent NCTA making necessary adjustments to revenues and expenses; 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 (ESG) factors

We analyzed NCTA's ESG risks relative to its market position, management and governance, and financial performance and determined that all are in line with our view of the toll-road sector standard. Although the authority's revenue performance was affected by activity level declines due to the COVID-19 pandemic, which we view as a social factor, this risk is abating and is not viewed as a material credit factor.

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

In our opinion, the economic performance and strong population growth of the Raleigh-Durham MSA, will continue to support the expressway's traffic levels. S&P Global Ratings expects U.S. economic activity and growth will accelerate in 2021 as public health conditions continue to improve (see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021). The steady pace of vaccinations in the U.S. has allowed for the easing of capacity restrictions, with many state and local governments fully or partially lifting mask mandates. Vaccination progress is part of our assessment of U.S. economic and credit implications across public finance. As the situation evolves, we will update our assumptions and estimates accordingly.

More broadly, we believe faster economic growth and lower recession risk will propel the recovery. S&P Global Economics raised real GDP growth forecasts for 2021 and 2022 to 6.5% and 3.1%, respectively, from 4.2% and 3.0% in its December 2020 forecasts and it now expects the U.S. economy will return to 2019 levels during the second quarter, one quarter earlier than without the stimulus. An accelerating U.S. economic recovery also reduced the risk of recession over the next 12 months to a much lower 10%-15% from 20%-25%. After falling by 3.9% last year, a 73-year record low, consumer spending is expected to jump by 6.9% in 2021, a 66-year high, and 4.2% the following year.

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 June 24, 2021)		
North Carolina Tpk Auth (Triangle Expwy) toll rds brs		
<i>Long Term Rating</i>	BBB/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds brs (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds brs (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (AGM)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed
North Carolina Tpk Auth (Triangle Expwy) toll rds br (ASSURED GTY)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

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