

**Rating Action: Moody's upgrades to Aa1 North Carolina Turnpike Authority's state appropriation revenue bonds; outlook stable**

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New York, March 29, 2018 -- Moody's Investors Service has assigned a Aa1 rating to North Carolina Turnpike Authority's (NCTA) \$150 million Triangle Expressway System Appropriation Revenue Refunding Bonds, Series 2018A. Concurrently, Moody's has upgraded to Aa1 from Aa2 the rating on NCTA's \$708 million of outstanding state appropriation revenue bonds, consisting of Series 2009B bonds issued to finance the Triangle Expressway System and Series 2010A and Series 2011 bonds issued to finance the Monroe Connector System. 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 originally financed by the bonds and the moderately strong legal structure, including the risk of non-appropriation. Although the state appropriation revenues are 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 robust employment and population growth. Additionally, the state's stable outlook is supported by conservative fiscal management and budgeting practices, including a significant growth in reserves, that will enable North Carolina to manage through unexpected fiscal pressures.

**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 state General Assembly enacted legislation authorizing the continuing annual appropriations to NCTA from the highway trust fund of \$25 million for the Triangle Expressway System and \$24 million for the Monroe Connector System, to be used to secure the debt issued for these projects. The legislation creates a continuing appropriation from the fund, and requires no additional acts of the legislature. In contrast, subject-to-appropriation debt secured by the state general fund is included in the biennial budget and has to be approved by the legislature every budgetary cycle. However, the state General Assembly reserves the right to reduce or suspend appropriations to NCTA.

The Series 2018A and 2009B bonds are secured by the \$25 million state appropriation. The Series 2009B Build America Bonds (BABs) are additionally secured by a federal interest rate subsidy. After the refunding of the Series 2009B bonds, debt service will be structured to be no greater than the \$25 million state appropriation, eliminating the risk of reduction of federal interest rate subsidies. The Series 2010A and Series 2011 bonds are secured by the \$24 million state appropriation. The Series 2010A BABs are also secured by a federal interest rate subsidy. The Series 2009B and Series 2010A BABs are further secured by a debt service reserve fund equal to the maximum federal interest subsidy payment expected to be received in the current or

any future fiscal year.

Highway trust fund revenues, which amounted to \$1.5 billion in fiscal 2017, consist of transportation-related taxes and fees. From fiscal 2012 to 2017, highway trust fund revenues grew by a compound annual growth rate of 7.1%. The primary sources of revenue in the fund are a 3% highway use tax levied on the retail value of motor vehicles and approximately 20% of motor fuels tax revenue. Together, these two sources provide 89% of total revenues 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 \$147 million is currently outstanding.

#### USE OF PROCEEDS

Proceeds from the Series 2018A bonds will be used to refund a portion of NCTA's outstanding Series 2009B bonds for estimated net present value savings of approximately \$10.8 million, or 7.2% of the refunded par.

#### 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 empowered to design, establish, purchase, construct, operate, and maintain turnpike projects identified by the state General Assembly. 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 also subject to approval by the North Carolina Local Government Commission (LGC). The LGC 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 these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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