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Ratings

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Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

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Credit Profile		
US$156.22 mil monroe expressway toll rev rfdg bnds ser 2022A due 07/01/2053		
Long Term Rating	BBB/Stable	New
North Carolina Tpk Auth (Monroe Expwy) toll rds br		
Long Term Rating	BBB/Stable	Affirmed
North Carolina Tpk Auth (Monroe Expwy) toll rds br		
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North Carolina Tpk Auth (Monroe Expwy) toll rds br		
Long Term Rating	BBB/Stable	Affirmed

Rating Action

S&P Global Ratings revised the outlook to stable from negative and affirmed its long-term rating of 'BBB' on North Carolina Turnpike Authority's (NCTA) Monroe Expressway senior toll revenue bonds outstanding and the authority's 2016 subordinate Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. At the same time, S&P Global Ratings assigned its 'BBB' long-term rating to NCTA's proposed $156.2 million Monroe Expressway senior-lien turnpike revenue refunding bonds series 2022A.

The outlook revision reflects our view that the system will perform near updated projections, inclusive of COVID-19 impacts, which will allow the authority to maintain financial metrics consistent with an adequate financial risk profile.

The authority will use bond proceeds from the proposed series 2022A issuance to refund the TIFIA series 2016 loan, pay costs associated with the issuance, fund the premium on a bond insurance policy for the proposed issuance, and fund the debt service reserve insurance policy.

A pledge of the expressway's receipts secures the toll road revenue bonds and TIFIA loan. The NCTA must show that forecast revenue in each fiscal year is at least 140% of the debt service requirement for senior-lien debt and the proposed issuance, and forecast revenue equals at least 130% of the debt service requirement for parity and the proposed debt through the subordinated level. Although the TIFIA loan is subordinate to the toll bonds, the rating on the loan reflects the provisions that allow the loan to spring to parity with senior obligations upon a bankruptcy-related event. After the proposed series 2022A issuance, the outstanding TIFIA loan will be refunded in full.

Credit overview

The rating reflects our opinion of the toll road's adequate enterprise risk and financial risk profiles and the uncertainty associated with forecasting traffic and revenues on tolled facilities concluding their ramp-up period due to the effects of the COVID-19 pandemic. The enterprise risk profile reflects transaction risk because the toll road faces competition from free alternatives although the project benefits from favorable oversight and underlying economic fundamentals. We expect significant increases in continuing traffic ramp-up through 2023 before growth moderates. The authority was well positioned both operationally and financially entering the pandemic, having successfully completed the construction of the new toll road and beginning to ramp up with transactions. However, like most toll roads, the authority experienced mobility restrictions and associated health and safety conditions associated with the pandemic that adversely affected traffic and revenue beginning mid-March 2020. Total transactions in fiscal 2022 are expected to be 14.7% lower under current forecasts compared with the initial traffic and revenue study completed in 2016. However, total revenues for fiscal 2022 are only expected to be down 7.3% when comparing current forecasts with the original 2016 forecast. For more details on the toll road sector, see the "U.S. Transportation Infrastructure Sector Update And Medians: Not-For-Profit Toll Roads and Bridges," published Sept. 22, 2021, on RatingsDirect.

The financial risk profile reflects our opinion of the authority's reasonable base-case projections of debt service coverage (DSC) from a high debt burden, and the additional flexibility provided by the North Carolina Department of Transportation (NCDOT) by guaranteeing to replenish the operations and maintenance and renewal and replacement funds if needed. Tempering these factors is the requirement for strong annual growth in revenues, transactions, and tolls to meet base-case projections. We view the base-case toll revenue and financial forecast assumptions as reasonable, given regional population and employment projections. The consultant's baseline forecast includes an updated bring-down letter to the previous traffic and traffic and revenue update from 2020, completed by CDM Smith in connection with this bond issuance, and assumes a compounded annual toll revenue growth rate of 7.3% through 2025, 3% from 2025-2030, 3.1% from 2030-2040, and 2.8% from 2040-2058. The compounded annual growth rate in transactions is 7.6% until 2025, 1.9% from 2025-2030, 1.2% from 2030-2040, and 0.9% from 2040-2058. The forecast assumes no changes in the existing toll rate policy. The authority can change toll rates and plans to increase tolls every year in line with inflation.

The expressway consists of an approximately 20-mile, all-electronic tolling roadway extending from US Highway 74 at Interstate 485 in eastern Mecklenburg County, N.C., to U.S. 74 near Marshville. It provides a limited-access, four-lane road and an alternate and timesaving route for travelers who are currently taking U.S. Highway 74 through the Town of Monroe and several other communities.

The enterprise risk profile reflects our view of the toll road's:

- Vulnerable market position because, although the road provides important links in the Charlotte region, it faces free alternatives, uncertain traffic levels, and is continuing to ramp up;
- Extremely strong service area economic fundamentals, which include favorable levels of economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and average unemployment levels; and
- Very strong management and governance, reflective of conservative financial practices and expertise that we believe will continue following the ramp-up of the Monroe Expressway.

The financial risk profile reflects our view of the toll road's:

- Adequate financial performance, with DSC (S&P Global Ratings-calculated) that we expect will meet or exceed projections based on the base-case forecast, which we believe itself is achievable;

- Vulnerable debt and liabilities capacity, reflecting our expectation that the expressway's debt-to-net revenues will settle within the 20x-30x range as traffic levels continue to ramp up with annual toll rate increases; and
- Strong liquidity and financial flexibility from a sizable general fund reserve, with no planned drawdowns.

Environmental, social, and governance

We assessed the turnpike system's environmental, social, and governance risks and opportunities relative to its market position, management and governance, and financial performance, and determined that all are credit neutral relative to the toll road sector. We note the county's broader population growth positions the system to benefit to the extent it translates into higher transactions and revenues. Although the authority's revenue performance was affected by activity 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.

Stable Outlook

Upside scenario

We could raise the rating during the two-year outlook period if traffic meets or outperforms the forecast and we believe these levels are sustainable.

Downside scenario

We could lower the rating during our outlook period if actual results fall below the forecast.

Credit Opinion

The U.S. economy has felt less impact with each wave of the coronavirus and has been able to withstand the damage. We maintain our assessment of U.S. recession risk over the next 12 months at 10%-15%--our lowest assessment in six years. However, as supply chain disruptions continue, S&P Global Economics has lowered its U.S. GDP growth forecast to 5.5% for 2021 and 3.9% for 2022 (from 5.7% and 4.1%, respectively). Supply chain disruptions are the largest stumbling block for the U.S. economy. Although there are signs that supply chain issues are easing, we expect price pressures will last well into this year and inflation will not reach the Federal Reserve's target until late 2023. Surging inflation continues to erode consumer confidence, as the latest University of Michigan Consumer Sentiment Index reading hit its lowest level in the past 10 years. Consumers registered disappointment both today, and in the future, with current conditions falling to a 10-year low while expectations dropped to an eight-year low. Despite the slowdown, GDP is still likely to rise to a 37-year high in 2021, with solid readings for this year, on continued economic demand from healthy balance sheets. For more information, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," Nov. 29, 2021.

Related Research

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

- Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing By 2023 And A Stymied Transit Recovery, Jan. 12, 2022