S&P Global Ratings

RatingsDirect®

Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

Primary Credit Analyst:
Andrew J Stafford, New York + 212-438-1937; andrew.stafford1@spglobal.com

Secondary Contact:
Kevin R Archer, San Francisco + 1 (415) 3715031; Kevin.Archer@spglobal.com

Table Of Contents

Summary:

North Carolina Turnpike Authority; Toll Roads Bridges

Credit Profile		
North Carolina Tpk Auth (Monroe Expwy) toll rds br		
Long Term Rating	BBB+/Positive	Upgraded
North Carolina Tpk Auth (Monroe Expwy) toll rds br		
Long Term Rating	BBB+/Positive	Upgraded
North Carolina Tpk Auth (Monroe Expwy) TIFIA		
Long Term Rating	BBB+/Positive	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'BBB+' from 'BBB' on North Carolina Turnpike Authority's (NCTA) Monroe Expressway senior toll revenue bonds outstanding and the authority's subordinate Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.
- The outlook is positive.
- The upgrade and the positive outlook reflect our view of a start-up toll road--the Monroe Expressway—that is substantially through the ramp-up period, experiencing strong traffic and revenue growth resulting in an improved market position to adequate from vulnerable. We could raise the rating in the next two years if we believe financial metrics can be maintained at levels consistent with a strong financial risk profile.

Security

A pledge of the expressway's receipts secures the toll revenue bonds and TIFIA loan. The NCTA's Trust Agreement Rate Covenant requires pledged revenues equal at least 130% for senior-lien debt service and 110% for parity debt service. The TIFIA rate covenant requires pledged revenues equal at least 135% for senior-lien debt service and 125% for total debt service. To issue additional bonds, 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 revenue bonds, our Transportation Infrastructure Enterprise (TIE) criteria considers all-in coverage of the senior and subordinate liens. In addition, the authority's TIFIA loan provisions allow the loan to spring to parity with senior obligations upon a bankruptcy-related event. Because of these considerations, we equalize the senior- and subordinate-lien ratings.

Credit overview

The rating action reflects an improved enterprise risk profile to strong as a result of the expressway successfully finishing ramp-up and the potential for the financial risk profile to improve to strong from adequate over the next two years, depending on how the toll road performs relative to forecast.

Monroe Expressway is 19.8 miles long, of which approximately 18 miles are tolled extending from U.S. Highway 74 (US 74) at Interstate 485 in eastern Mecklenburg County, N.C., to US 74 near Marshville. It provides a limited-access, four-lane road and an alternate and timesaving route for travelers who are currently taking US 74 through the town of Monroe and several other communities. The expressway commenced toll collection operations in November 2019.

Key credit weaknesses, in our view, are the expressway's:

- Rising debt service requirements, causing total debt service coverage (DSC; S&P Global Ratings-calculated) to potentially fluctuate near 1.25x, if revenue growth is slower than forecast; and
- Adequate debt and liabilities capacity, reflecting our expectation that the expressway's debt-to-net revenues will settle below 20x as existing debt amortizes and the expressway continues to experience good revenue growth as a result of generally favorable traffic volume trends and annual toll rate increases.

Key credit strengths, in our opinion, are the expressway's:

- Substantial completion of its ramp-up period as a start-up toll road, which has demonstrated strong traffic volume growth supported by the 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;
- Very strong management and governance, reflective of conservative financial practices, willingness and ability to increase toll rates as needed, and expertise that we believe will continue beyond the ramp-up period; and
- Lack of new-money borrowing needs.

Environmental, social, and governance

We assessed NCTA's environmental, social, and governance risks and opportunities relative to the expressway's market position, management and governance, and financial performance, and determined that all are neutral in our credit rating analysis. We note the Charlotte MSA's broader population growth positions the expressway to benefit from strong demand to the extent it translates into higher transactions and revenues.

Outlook

The positive outlook reflects a greater than one-in-three chance we could raise the rating in the next two years if the expressway's activity levels continue to meet or exceed current forecasts such that financial metrics are maintained at levels consistent with a strong financial risk profile.

Downside scenario

We could return the outlook to stable or, although unlikely, we could lower the rating if the authority were to consistently underperform projected revenue forecasts, pressuring DSC (S&P Global Ratings-calculated) and debt to net revenues and resulting in a weaker financial risk profile.

Upside scenario

We could raise the rating during the two-year outlook period if traffic and revenue levels continue to meet or exceed current forecasts, resulting in improved financial metrics consistent with a strong financial risk profile.

Credit Opinion

Our improved enterprise risk profile assessment to strong was driven by improving our market position assessment to adequate, reflecting the expressway's actual transaction and revenue trends performing in line with independent consultant forecasts and it effectively finishing ramp-up. Pledged revenues in fiscal 2022 were approximately 105% of budgeted levels and year-to-date fiscal 2023 pledged revenues through February 2023 are tracking in line with the authority's fiscal 2023 budget. Our enterprise risk profile also reflects very strong management and governance and extremely strong Charlotte MSA economic fundamentals assessments.

Our financial risk profile assessment of adequate considered the expressway's historical performance and reasonable base-case projections, and the additional flexibility provided by a guarantee from the North Carolina Department of Transportation to replenish the operations and maintenance and renewal and replacement funds, if pledged revenues are insufficient to cover those costs. Our financial risk profile assessments reflects our expectation that debt service coverage (S&P Global Rating-calculated) could fluctuate near 1.25x should toll revenues trend lower than forecast, debt to net revenue will eventually settle below 20x as existing debt amortizes with no plans to issue additional new money debt, and unrestricted cash reserves will be maintained at levels that will provide 621 days cash on hand and 8.3% of debt outstanding. If we believe the expressway can maintain DSC above 1.25x we could improve our financial risk profile assessment. We view the base-case toll revenue and financial forecast assumptions as reasonable, given employment projections and a projected three-year population growth rate for the MSA of 4.4% compared with the national average of 1.6%. The most recent consultant's baseline forecast done in January 2021 in the form of an updated bring-down letter to the previous traffic and revenue update from 2020, assumes a compounded annual toll revenue growth rate of approximately 5.5% through 2025, 3.0% from 2025-2030, 3.1% from 2030-2040, and 2.8% from 2040-2058. The compounded annual growth rate in transactions is 7.6% from 2022-2025, 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, which is to increase toll rates every year in line with inflation forecasts.

S&P Global Ratings believes that the U.S. economy will fall into a shallow recession in 2023, although increased credit tightening stemming from recent events in the banking sector has elevated the likelihood of a hard landing. Supply-chain disruptions continue in certain sectors and, although inflation likely peaked in third-quarter 2022 as prices for goods moderated, prices for services excluding housing remain elevated. Our U.S. GDP growth forecast is 0.7% for 2023 and 1.2% for 2024. We also now expect U.S. GDP will decline by 0.3 percentage points from its peak in first-quarter 2023 to its third-quarter trough. If correct, this recession will beat the 2001 recession as the softest since 1960. We expect the unemployment rate, at 3.6% in February 2023 and just above its pre-pandemic level, will rise in 2023 and peak at 5.4% in second-quarter 2024 before declining in late 2025. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of the Federal Reserve's continued aggressive policy stance to keep interest rates higher until inflation declines toward its 2% target. We believe the federal funds rate will peak at 5.00% to 5.15% by May 2023 with the first interest rate cut in mid-2024. See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022