FITCH AFFIRMS NORTH CAROLINA TURNPIKE AUTHORITY SYSTEM REVS AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-Chicago-21 January 2015: Fitch Ratings has affirmed the 'BBB-' rating on the following North Carolina Turnpike Authority (NCTA), Triangle Expressway System (expressway) senior lien revenue bonds:

--Approximately $235 million revenue bonds, series 2009A (current interest bonds);
--Approximately $51 million revenue bonds, series 2009B (capital appreciation bonds).

Fitch also affirmed the 'BBB-' rating on NCTA's approximately $373 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

The Rating Outlook on both the senior lien revenue bonds and TIFIA loan is Stable.

KEY RATING DRIVERS

The rating reflects a newly opened commuter toll road supported by a stable and expanding service area; the North Carolina Department of Transportation's (NCDOT) commitment to support operating, maintenance and capital costs; and a reliance on revenue growth to meet debt service obligations. An escalating debt structure and periods of low debt service coverage ratios (DSCRs) have a constraining effect on the expressway's credit quality; however, flexibility to raise toll rates and additional financial backstops provide reasonable protection from downside risk.

Revenue Risk - Volume: Weaker
Strong Service Area, Long-Term Demand Uncertain: The expressway serves as a major alternative to congested free roads and as a key route to the main employment center in the region, Research Triangle Park. A lack of forecast certainty for the expressway, arising from its relatively short demand history, is largely offset by strong historical county and corridor population and employment growth that is expected to continue.

Revenue Risk - Price: Midrange
Sufficient Rate-Making Flexibility: In Fitch's opinion, the road has moderate economic rate-making flexibility given higher-than-average wealth levels and a low passenger car toll of approximately $0.17/mile using NC Quick Pass. However, with the limited number of toll roads in the area, there still exists the potential for sensitivity to annually increasing toll rates given uncertainty with overall demand and perceived value of time savings.

Infrastructure Development & Renewal: Stronger
Gross Pledge Supports Newer Asset: NCDOT pledges to cover draws on the operating reserve and renewal & replacement reserve funds, to be repaid on a deeply subordinated basis by NCTA, creating a true gross revenue pledge.

Debt Structure: Midrange
Back-Loaded, Growth Dependent Structure: The expressway is dependent on continued revenue growth to meet an escalating debt service schedule. Excluding an interest-only period, total debt service from 2019, until maximum annual debt service (MADS) in 2037, grows at a compounded annual rate of 5.1%. No additional borrowing is expected and covenants exist to raise tolls to meet forward-looking minimum DSCRs as well as limit the fully-subordinated TIFIA loan's ability to spring to senior status.

Financial Metrics

Leveraged Asset, Backstop Supported: Fiscal 2014 total leverage (incorporating current accreted value of CABs), is high relative to peers at 21.8x, while total MADS coverage is 0.38x. However, it is Fitch's view that, while dependent on growth, there is sufficient coverage cushion and liquidity support via the fully funded debt service reserve and NCDOT-backed reserve funds to offset slower-than-expected ramp-up. Additional support for the project exists in the form of a $25 million annual payment from the state of North Carolina, net of state appropriation bond debt service (rated 'AA-' by Fitch), which totaled $9.7 million of support in fiscal 2014.

Peers: Once stabilized, the expressway's closest peers would include similar stand-alone projects such as Colorado's E-470 Public Highway Authority (E-470, BBB-/Positive) and San Joaquin Hills Transportation Corridor Agency (SJHTCA, 'BBB-'/'BB+'/Outlook Stable). The expressway's tolls are more favorable than its peers; however, the peers have greater franchise strength as they have been in service for many more years. The expressway's leverage is comparable with SJHTCA, both being above E-470, while its forecasted DSCR is more in line with E-470, given SJHTCA's recent debt restructuring.

RATING SENSITIVITIES

Negative: Failure of traffic growth to materialize as expected, coupled with a reluctance by NCTA to increase toll rates, resulting in DSCR and loan life coverage ratio (LLCR) profiles significantly below forecast levels would put negative pressure on the rating.

Positive: Positive rating actions are considered unlikely in the near term; however greater than expected growth over a sustained period post ramp-up, coupled with evidence of minimal price elasticity among road users, could lead to future positive rating action.

CREDIT UPDATE

At this point in time, the expressway is performing better than Fitch's original projections. Fiscal 2014 (FYE 6/30) traffic and revenue results exceeded base case projections by 16% and 2%, respectively, representing 24.8 million transactions generating $17.4 million. These figures represent year-over-year growth of 69%, transactions, and 99%, toll revenue. The expressway remains in ramp-up with at least three more years of significant growth expected before stabilizing, with these later years being more indicative of long-term performance.

The Fitch base case reflects a traffic CAGR scenario of 16.8% during ramp-up (through 2018) and 1.6% thereafter that, coupled with scheduled toll increases, results in a total revenue growth CAGR of 4.5% through fiscal 2043. Projected average and minimum DSCRs over the life of the senior debt are 2.6x and 2.2x, respectively, and 1.3x and 1.2x, respectively, at the aggregate level. Minimum LLCR is 1.4x while the TIFIA loan amortizes as projected in the issuer's scenario.

The Fitch rating case reflects a traffic CAGR scenario of 13.1% during ramp-up (extended through 2020) and 1.1% thereafter that, coupled with scheduled toll increases that begin at a level reduced by 6%, results in a total revenue growth CAGR of 3.9% through fiscal 2043. Projected average and minimum DSCRs over the life of the senior debt are 2.4x and 1.9x, respectively, and 1.2x and 1x, respectively, at the aggregate level. Minimum LLCR hits the 1.3x covenant in 2015 but does not go through it. Additionally, there remains four full years in which TIFIA could amortize if that flexibility is necessary.

In addition to the Fitch base and rating cases, Fitch also undertook a revenue growth break-even analysis, assessing the rate at which total revenue could grow from its current level and still service senior debt obligations, taking into account dedicated liquidity support. Accordingly, in order for the senior bonds to maintain at least 1.0x coverage after depleting all available reserves, NCTA would require a 0.9% total revenue growth rate through fiscal 2039. This compares to total revenue growth rates of 6.2%, 4.8% and 4.2% in the issuer's projections, Fitch base case and Fitch rating case, respectively. The senior bond assumption, however, assumes a TIFIA default. A total debt service breakeven would be closer to 3.9% through fiscal 2043 because liquidity is not available for the TIFIA loan and minimum DSCRs are already near the 1x level in Fitch's rating case.

Although the aggregate ratios are at the low end of criteria guidance for the 'BBB'-category, the rating case scenario developed reflects a very conservative operating environment. Furthermore, the breakeven analysis is considered reasonable given the strength of the MSA, lack of direct competition as well as the ability to raise tolls above inflation if necessary. These breakeven figures also illustrate the value that the liquidity provisions included in the structure provide in mitigating the escalating nature of the debt profile as well as tight coverage levels in the rating case. Additionally, a forward-looking loan life coverage ratio covenant to raise toll rates to meet the TIFIA amortization provides an additional layer of security.

The Triangle Expressway, North Carolina's first modern toll road, is an 18.8 mile all-electronic toll road that comprises the partially complete outer loop around the greater Raleigh area from I-40 in the north to the NC55 bypass in the south. The expressway is formally located in Wake and Durham counties and extends south from the NC-147/Interstate 40 interchange in Research Triangle Park to Northern Wake Expressway, and then northeast to the Northern Wake Expressway (NC-540)/NC-54 interchange and to the south to NC-55 Bypass in Holly Springs. Construction began in late 2009, with the facility opening to traffic in three phases, beginning with the Triangle Parkway in 2012. The project was delivered on schedule and under budget with the final phase, the Western Wake Freeway, opening on Jan. 2, 2013.

SECURITY

The senior bonds are secured by a gross lien on revenues of the expressway. The covenant by NCDOT to budget for operational costs that cannot be supported by revenues, and to pay for ordinary and capital maintenance on the expressway, provides significant support to both the bonds and the overall system. The TIFIA loan is secured by a lien on revenues after the payment of the senior lien bonds.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (July 11, 2012);
--'Rating Criteria for Toll Roads, Bridges and Tunnels' (Aug. 20, 2014).

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http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867
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