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Ratings

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Summary:

Maine Turnpike Authority; Toll Roads Bridges

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Credit Profile		
US$101.81 mil tpk rev rfdg bnds ser 2022 due 07/01/2042		
Long Term Rating	AA-/Stable	New
Maine Tpk Auth tpk rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Maine Tpk Auth TOLLFAC		
Long Term Rating	A+/Stable	Affirmed
Maine Tpk Auth (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the Maine Turnpike Authority's (the authority or the turnpike) approximately $102 million series 2022 turnpike revenue refunding bonds.

At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the authority's senior-lien turnpike revenue bonds outstanding and its 'A+' rating on the authority's special obligation bonds (subordinate lien) outstanding, using its criteria "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE; published March 12, 2018).

The outlook on all ratings is stable.

Security for the bonds is a pledge of revenues from tolls, concessions, rents, and all money in funds established by the bond resolution. Starting at the New Hampshire border, the turnpike is Maine's primary link to the rest of the U.S., extending 109 miles to the capital in Augusta and serving the most populous southern and coastal regions of the state between York County and the largest city of Portland. The state's three southernmost coastal counties (York, Cumberland, and Sagadahoc) are home to approximately 538,500 residents, approximately 40% of the state's population of 1.34 million.

Bond proceeds will be used to refund certain previously issued bonds and to pay costs of issuance. Specifically, the authority will issue the series 2022 bonds to refund its series 2012A turnpike revenue bonds and series 2012B revenue refunding bonds. The net present value of savings is expected to total approximately $25 million, with most of the savings occurring from 2025 through 2030. Officials report the savings schedule was designed to preserve coverage during those years given the expectation for a bond issuance in 2026 to fund a turnpike project. There is no extension of maturities.

The authority has approximately $594 million in debt outstanding, composed of $569 million of senior-lien debt and

$25 million of subordinate-lien debt. As of October 2021, the authority had unrestricted cash and investments totaling about $31.9 million and unrestricted nonboard-designated balances in the general reserve fund of $83.9 million available to meet any obligation.

Credit overview

The rating reflects our opinion of the authority's very strong enterprise risk profile and strong financial risk profile, the latter of which continues to recover from weakened trends resulting from the COVID-19 pandemic. Our enterprise profile reflects the turnpike's essential role as the primary travel corridor to the state, with very limited practical alternatives, connecting Maine with southern New England and to the populous and affluent metropolitan areas to the south. Our financial risk profile assessment is based on the authority's historically stable and steady revenue trends and our expectation that pandemic impacts on tolled traffic levels will continue to lessen in 2022. We expect that the authority can maintain financial metrics consistent with the rating beyond the current fiscal year, assuming traffic levels continue to recover, and management continues its proactive approach, adjusting operating expenditures, deferring capital spending for nonessential projects not yet started, and increasing toll rates, if needed.

While the onset of the pandemic caused the turnpike's overall traffic levels to dip dramatically, toll revenues are now nearing pre-pandemic levels after substantial recovery throughout 2021. Specifically, year-to-date net fare revenue through Oct. 31, 2021, is $114.9 million--117% of net fare revenue in 2020 and 96% of net fare revenue in 2019 (for the same time periods). Management reports the traffic mix has remained relatively stable throughout the pandemic at about 20% commercial traffic and 80% passenger traffic, the former performing comparatively better as heavy goods, such as construction materials, moved in and out of the state, and the latter picking up steam during the current calendar year as vaccinations rolled out. This recovery in passenger traffic is especially important to the authority, in our view, since out-of-state electronic toll transponders have typically generated a great deal of revenues and the system depends on seasonal traffic in the summer months. Historically, generally steady annual transaction growth and comparatively small declines during economic downturns have provided a degree of credit stability during typical economic cycles. During the expansion from 2009 to 2019, transaction growth had increased an average of 2.2% annually, with only two years of declines (2011 and 2013) of less than 1.0%. We expect recovery to steadily continue in 2022, barring additional uncertainty related to the pandemic. 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.

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 to last well into 2022 and inflation to not reach the Fed'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 2022, on continued economic demand from healthy balance sheets. The U.S. economy has felt less impact with each wave of the virus 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. For more information, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021.

The rating also reflects a positive holistic adjustment to accurately reflect our view of the system as a mature, critical, and essential road network with stable demand characteristics, along with the authority's historically favorable financial results and conservative financial management practices through different economic conditions.

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

- Very strong market profile, resulting from the toll road's historically mature and stable demand characteristics and important role in the state's and region's production of historically strong financial performance metrics;
- Extremely strong service area economic fundamentals, which reflect the state's population base, low unemployment compared with the national level, and a favorable GDP per capita;
- Very strong management and governance, reflecting the authority's conservative approach to financial and capital planning, history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently, and capable staff demonstrating considerable experience.

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

- Strong financial performance, reflecting our expectation that debt service coverage (DSC; S&P Global Ratings-calculated) will remain strong due to the turnpike's history of revenue growth from generally favorable traffic trends historically and adequate rate-raising flexibility;
- Very strong debt and liabilities capacity, with debt-to-net revenues that we expect will remain near 7x due to a manageable capital improvement program (CIP) that is expected to be mostly cash-funded until the authority's next bond issuance in 2026. We have expected additional issuance would be likely given traffic levels, but because of current principal amortization, debt issuance will likely not result in debt to revenues above 10x; and
- Strong liquidity and financial flexibility, reflecting our expectation that the authority will maintain unrestricted cash reserves of more than 250 days' cash on hand, although weaker compared to debt at 7.5%-20.0%.

The stable outlook reflects our expectation that, over the next two years, traffic trends and liquidity will remain at least stable while DSC remains near forecast levels. The outlook also reflects our expectation that management will continue to act proactively and conservatively to manage the turnpike's finances.

Environmental, social, and governance

We analyzed Maine Turnpike Authority's environmental, social, and governance risks and opportunities relative to the authority's 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 initially 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

If DSC levels, as per our calculations, were to increase to levels that we consider very strong and we expected this coverage to be maintained, we could raise the rating. However, we do not believe this is likely during our outlook horizon.

Downside scenario

Although unexpected, we could lower the rating if the authority's financial metrics were to weaken to a level not commensurate with the current rating level, for example if DSC were to decline precipitously, according to our calculations, because of depressed traffic trends or unexpected debt issuance.

Credit Opinion

We view the overall bond structure and protections to be slightly weaker than average, but neutral for credit quality, given the turnpike's consistently strong financial performance. The indenture has a lower 1.2x rate covenant and projected additional bonds test, and a debt service reserve (DSR) funded to only 50% of maximum annual debt service (MADS) with cash. Bond insurance surety policies are available up to the full debt service requirement, if needed. The special obligations-lien bonds do not benefit from a DSR. The rate covenant requires the authority to increase the DSR to 100% of MADS if DSC dips below 2x for two consecutive years, but only until it has achieved DSC at 2x or higher for two consecutive years, which it did in fiscal years 2005-2019.

We believe management-provided traffic and revenue forecasts are achievable but still subject to uncertainty as revenues continue to rebound during the ongoing pandemic. Net operating revenues are expected to rise by 20.3% in 2022 to surpass pre-pandemic levels before steadying at 1.8% growth in 2023, 2.8% growth in 2024, and 0.9% growth in 2025. To the extent projected transactions are near forecast levels, financial forecasts provided by management show that the authority can maintain financial margins consistent with the current rating, with DSC ranging from approximately 2.6x-3.0x from 2021-2025, as per the indenture's calculation of coverage. The forecast includes a toll rate increase that went into effect on Nov. 1, 2021, frequency discount reduction, and a scheduled uniform 29% toll rate increase across the system in 2028, among pandemic impacts and updated experience assumptions.

Our assessment on Maine Turnpike Authority's debt and liabilities capacity reflects our expectation that the authority will maintain debt-to-net revenues within 5x-10x as the turnpike moves through its 2020-2023 CIP with approximately $350 million in additional debt planned through 2032. The CIP through 2023 totals $228.7 million. Management expects to fund most of this program with cash for the next several years (until a likely bond sale in 2026). In our opinion, the capital plan is prudent, with planned issuances over the next decade at manageable levels, whereas management is taking steps to ensure DSC will not fall below 2x coverage, based on the indenture.

We assess the authority's overall liquidity and financial flexibility as strong, with unrestricted days' cash on hand (S&P Global Ratings-calculated) at 304. However, we calculate the liquidity-to-debt ratio for 2020 to be 10.2x, which we consider adequate.

The unrestricted cash and investment balance for the fiscal year ended Dec. 31, 2020, totaled $25.5 million, equating to approximately 128.2 days' of operating expenses (including preservation expenses) and 4.3% of debt. These metrics, respectively, increase to 304.4 days' cash on hand, which we consider strong, and 10.2%, which we consider adequate, when including a $35 million line of credit available for any purpose. This line of credit is available for working capital purposes, has no balance outstanding, and expires Dec. 31, 2021.

Related Research

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