S&P Global
Ratings

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Summary:

Pennsylvania Turnpike Commission; Toll Roads Bridges

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Table Of Contents

Summary:

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Credit Profile		
Pennsylvania Tpk Comm		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A' and 'A-' underlying ratings (SPUR) on the Pennsylvania Turnpike Commission's (PTC) senior-lien turnpike revenue bonds and subordinate revenue bonds outstanding, respectively.

At the same time, S&P Global Ratings affirmed its 'A' rating on the PTC's series 2005 variable-rate vehicle registration fee bonds. Our analysis considers the registration fee revenue stream that we believe will not cover debt service on the variable rate bonds consistently, and also incorporates the commission's ability to support the debt service from other legally available funds. Under our multiple revenue streams criteria, we consider our rating on the PTC the strong link, and our rating on the bonds is tied to that on the commission's senior-lien turnpike revenue bonds.

The ratings reflect our opinion of the PTC's:

- Strategic location, with direct links to the New Jersey Turnpike to the east and the Ohio Turnpike to the west and lack of significant competition from toll-free roads;
- Independent rate-making ability and willingness to increase tolls;
- Good historical toll revenue growth; and
- Historically good combined debt service coverage (DSC), which is 1.49x based on fiscal 2016 results, including commission's senior, subordinate, and motor license fund (MLF) enhanced subordinate special revenue debt.

We believe credit weaknesses include the PTC's:

- High debt burden that continues to rise due to a rolling, multibillion-dollar capital improvement program (CIP) and legislatively mandated payment obligations, and
- Projected erosion in DSC levels due to escalating debt service requirements.

Net revenue directly associated with Pennsylvania Turnpike system operations secures the commission's senior-lien turnpike revenue bonds, while the subordinate lien is secured by releases from the general reserve fund (the vast majority of which is funded through toll revenues) after senior-lien obligations are met. The commission is required to make these releases after meeting these senior obligations, and there has not been an instance of insufficient excess since the subordinate-lien indenture was instituted in 2008.

The large and mature system consists predominantly of the 359-mile east-west Mainline Section, the 110-mile north-south section (the Northeast Extension), the 16-mile Beaver Valley Expressway, the 13-mile Amos K.

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Hutchinson Bypass, the 48-mile completed portion of the Mon/Fayette Expressway, and the six-mile segment of the Southern Beltway on which tolls are collected. The Mainline Section traverses southern Pennsylvania and connects the Ohio Turnpike at the system's western end with the New Jersey Turnpike at the system's eastern end.

The turnpike mainline commences on the eastern boundary of Pennsylvania at the Delaware River Bridge that connects the System to the New Jersey Turnpike. In January 2017, the Delaware River Bridge was closed following the discovery of a fracture in a steel truss. No timetable has been set for the bridge's reopening. We do not consider this closure a major credit risk given that it (at an estimated $50 million in gross toll revenues for fiscal 2017) represents a relatively small percentage of PTC's total gross toll revenues, which totaled about $1 billion for fiscal year-end 2016 (May 31).

In addition to its own capital planning and maintenance obligations, the PTC has added financial responsibilities due to Pennsylvania's Act 44, as amended by Act 89 in November 2013. The amendment requires the PTC to continue making $450 million annual payments to the Pennsylvania Department of Transportation (PennDOT) through fiscal 2022, at which time payments will fall to $50 million through 2057 (previously the $450 million level was maintained for the full period). Established in 2007, the act calls for the commission to make these payments to PennDOT to provide funding for roads, bridges, and transit throughout the commonwealth. While the amendment reduced the annual amount required beginning in fiscal 2023, it also eliminated funding for highway payments beginning on July 1, 2014. PennDOT will instead use the money for transit and multimodal purposes only, while still requiring $450 million annually from PTC through fiscal 2022. The commission had been using primarily subordinate-lien bonds to finance payments related to transit and the motor license fee-enhanced bonds to fund payments related to highways, the latter of which are subordinate to the subordinate-lien bonds and which we do not rate. It is also using ongoing revenues to partially finance its Act 44 payments, and it plans to continue financing a portion of the $450 million annual payments in this manner, meeting the requirements as per the amended act. Although the act has not changed the commission's governance, it has changed PTC's mission and how it operates. Because the commission has made and will continue to make these payments primarily with debt until fiscal 2023, the legislation effectively ensures it will depend on frequent toll increases to meet escalating debt service requirements.

The commission continues to implement toll increases and adjustments to its discount programs; the most recent toll increase of 6% on both cash and E-ZPass (except for the Southern Beltway) took effect on Jan. 8, 2017. The commission determines each year's toll increases based on the consultant's forecast of traffic and revenue and the amount necessary to meet debt and operational needs. Current forecasts assume annual toll rate increases of 6% through 2020, 5% for 2021-2025, 4% for 2026, and 3.5% for 2027, and 3.0% for 2028-2044. The commission has a policy of maintaining at least 2.0x DSC on the senior lien, 1.3x DSC on the senior and subordinate lien, and 1.2x DSC on the senior, subordinate, and MLF special revenue lien.

In fiscal 2016, 198.3 million vehicles traveled on the system, a record for traffic volume. Traffic volume for the year was up 3.1% from fiscal 2015, and fiscal 2015 traffic increased 1.9% compared with fiscal 2014 levels. Passenger cars account for about 57% of toll revenue and about 86% of transactions. Toll revenue in fiscal 2016 also peaked at $1.0 billion, or 10.5% over fiscal 2015.

Due to continued increases in toll rates and traffic and despite an increase in debt service requirements, fiscal 2016 revenues covered PTC's senior debt service, combined senior and subordinate debt service, and combined senior, subordinate, and MLF special revenue bond debt service by 3.27x, 1.61x, and 1.49x, respectively. We understand that management projects that, with the additional debt planned on the senior and subordinate liens, coverage of the commission' senior debt service, combined senior and subordinate debt service, and combined senior, subordinate, and MLF special revenue bond debt service will decline to 2.52x, 1.32x, 1.24x, respectively, in fiscal 2020 before gradually improving. While we consider this all-in DSC level to be relatively slim given the continued growth required in fare revenue, the commission has demonstrated a history of raising tolls to a necessary level to meet or exceed projections.

The PTC's debt burden is high and will continue to grow. It has $4.9 billion in senior-lien turnpike debt and $5.8 billion in subordinate-lien turnpike revenue bonds outstanding (including the MLF special revenue bonds). The commission's current 10-year CIP adopted by the commission on May 17, 2016, totals about $5.6 billion, down from $6.5 billion in the plan adopted in May 2014. The reduction is primarily attributable to the PTC reducing the total miles reconstructed to an average seven miles annually from eight. The reduction does not represent a significant reduction in critical projects, ensuring the protection of key commission assets.

The PTC projects the additional debt needed to fund the CIP will be over $2 billion lower over the 10-year period than previously anticipated because of a $1.1 billion projected increase in commission-funded pay-as-you-go capital and $900 million reduction in spending over the 10 year period. From fiscal 2017 to fiscal 2026, the PTC expects to issue about $6.4 billion in additional debt, including roughly $4 billion of senior bonds and $2.4 billion of subordinate bonds.

With the most recent traffic and revenue study by the commission's consultant, in March 2016, total adjusted gross toll revenue is estimated to increase to $7.0 billion by fiscal 2057 from $1.0 billion in fiscal 2016, or 4.9% annualized growth, due to transaction growth and toll increases. The PTC is planning for annual toll increases of 3.0% to 6.0% through fiscal 2044. We consider the forecast to be moderately aggressive.

Although the commission has managed to raise tolls significantly and consistently during the early years of Act 44, with revenue enhancements outweighing any negative traffic results, we still believe that persistent toll increases required as part of its overall financial structure might not be sustainable with respect to traffic trends. Toll rate increases are not limited, but we believe repeated increases above CPI might attract strong opposition, testing the PTC's resolve to maintain strong financial margins while addressing capital needs. Although the commission is addressing the turnpike's capital needs, we would view the situation favorably if the PTC were to consistently maintain financial flexibility that we believe is strong despite significant increases to debt or if the turnpike's actual revenue performance were to exceed projections, reducing its need for additional debt.

The commission's net variable-rate debt is lower than the 25% limit defined under its official debt management policy.

We consider the PTC's liquidity position good. The commission reported an audited unrestricted cash and investments balance of nearly $490 million or 379 days' cash on hand at fiscal year-end 2016; and $307.7 million or 297 days' cash as of Nov. 30, 2016 (based on a fiscal 2017 operating budget of $377.9 million).

The PTC has a portfolio of swaps on the senior lien to hedge various series, consisting of various counterparties. The current notional amount of the commission's swaps on its turnpike revenue bonds is about $978.8 million, with a mark-to-market value of $137.0 million, not in the PTC's favor, as of Dec. 16, 2016. Of note are swaps with two counterparties with potential collateral posting that would occur if the senior-lien rating on the turnpike were to fall to 'A-' or below, which is only one notch from the current rating. While the commission has sufficient liquidity to respond to such an event, we will continue to monitor any associated developments.

Outlook

The stable outlook reflects our opinion that the PTC will likely maintain its strong financial flexibility during our two-year outlook horizon, despite increasing debt.

Upside scenario

We do not expect to raise the ratings during our outlook period, due to the commission's high debt load and additional debt plans and not expecting DSC to materially exceed forecast.

Downside scenario

We could lower the ratings if the commissions were not to adjust tolls as needed to maintain sufficient liquidity, financial margins, and capital needs, or if DSC were to erode as its financial plans evolve.

Ratings Detail (As Of March 1, 2017)		
Pennsylvania Tpk Comm regis fee 2005A (wrap of insured) (AGM & BHAC) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm subord		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm subord		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm subord (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm subord (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rds br (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rds br (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rds br (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rds br (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rd br (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm toll rd br (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Ratings Detail (As Of March 1, 2017) (cont.)		
Pennsylvania Tpk Comm tpk subord (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk subord (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk subord (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk subord (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk subord (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk subord (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm tpk (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Pennsylvania Tpk Comm TOLLFAC		
Long Term Rating	A-/Stable	Affirmed
Pennsylvania Tpk Comm		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	A/Stable	Affirmed
Pennsylvania Tpk Comm subord		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Long Term Rating	A-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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