FITCH RATES WEST VIRGINIA PARKWAYS AUTHORITY SERIES 2018 REV BONDS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-23 July 2018: Fitch Ratings has assigned a 'AA-' rating to the West Virginia Parkways Authority's (WVPA) $161 million series 2018 senior lien toll revenue bonds.

KEY RATING DRIVERS
The 'AA-' rating reflects WVPA's role as a key interstate corridor, with a demonstrated mature and stable traffic profile and significant legal rate-making flexibility. The rating is further supported by the authority's debt planning policy to maintain a minimum debt service coverage ratio (DSCR) of 2.0x and expected future pay-go funding of all capital and major maintenance needs. Credit considerations include exposure to commercial traffic volumes, limited local demand, some uncertainty with regard to future toll elasticity and moderate leverage. The authority's financial profile is expected to remain strong when factoring in approximately $390 million of additional bonds (including the upcoming series 2018 senior lien bonds) expected to be issued to fund mostly non-turnpike projects, with rating case coverage ratios averaging 3.0x and leverage evolving to 5.9x by 2020.

Essential Interstate Route; Commercial Exposure - Revenue Risk (Volume): Midrange
The West Virginia Turnpike is an important interstate route linking eastern Ohio and western Pennsylvania in the north to western Kentucky, Virginia, North Carolina, and other states in the Southeast and Mid-Atlantic U.S. Local demand is limited, but the turnpike serves an essential route for commercial vehicles resulting in relatively high exposure, with approximately 50% of revenues derived from heavy trucks. Traffic has historically remained stable even through the most recent economic downturn, and demand has been relatively inelastic to a sizable toll increase in 2009. However, elasticity to the impending higher toll increase being implemented in 2019 is uncertain. The 2019 electronic toll rates will be $0.40 and $0.14 per mile for commercial and passenger vehicles respectively, which are approximately in the middle of the range when compared to other large toll-road systems but on the higher-end compared to most Fitch-rated turnpikes.

Considerable Rate-Making Flexibility - Revenue Risk (Price): Stronger
WVPA has full legal flexibility to increase tolls and has experienced minimal political interference historically. The authority has shown willingness to increase tolls above inflation, with a 60% toll increase in 2009. The authority has successfully approved another large 100% toll increase in 2019, with 1.6% annual toll increases starting in 2022, which Fitch views positively.

Predominately Pay-Go Capital Program - Infrastructure Development and Renewal: Stronger
The Turnpike is in good repair, with a manageable $439 million capital and major maintenance program from fiscal 2019-2028. The current and planned debt issuances in 2020 are being channeled towards projects off the turnpike within a 10-county adjacent area and that are deemed complementary to the turnpike. Despite greater leverage, the Turnpike maintains financial flexibility, funding the capital program almost entirely as pay-go except for approximately $9 million in future debt proceeds. In the unlikely event of underperformance, the authority intends to delay debt issuances associated with the non-core turnpike projects, supporting the internal coverage policy and maintaining its own infrastructure needs as a priority.

Conservative Debt Structure - Debt Structure: Stronger
WVPA has a conservative debt structure with fixed rate fully amortizing debt, a level debt service profile, and a cash-funded debt service reserve fund. The debt planning policy is strong with a minimum debt service coverage target of 2.0x, well above the rate covenant of 1.25x.

Financial Profile

Current debt outstanding was recently defeased and/or redeemed, so that the authority will not have any bonds outstanding prior to the issuance of the series 2018 bonds, and WVPA expects future issuances of approximately $222 million in calendar year 2020. Net debt-to-cash flow available for debt service (CFADS) is expected to exceed 5.0x in 2020, evolving downward to under 4.0x by 2026 in Fitch's rating case as outstanding debt amortizes. Coverage in the rating case remains strong averaging 3.0x from 2021 through 2027, excluding outlier years.

PEER GROUP

Ohio Turnpike (OTIC, AA senior/A+ subordinate/Stable) and Oklahoma Turnpike Authority (OTA, AA-/Stable) are among WVPA's peers. OTIC, OTA, and WVPA all provide essential interstate routes with limited competition and OTIC has similar exposure to commercial traffic as WVPA. WVPA toll rates per mile in 2019 will be higher than the rates for OTIC and OTA, providing WVPA with less economic flexibility to raise tolls. OTIC's higher senior lien rating is due to its higher DSCR and lower leverage.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
Sustained traffic and revenue declines, materially higher than expected cost growth, or additional debt, which pressures senior DSCRs to 2.0x and below on a sustained basis.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
While the near-term financial profile is robust, given that peers at 'AA' have stronger volume risk profiles, positive rating movement is unlikely in the near term. However, outperformance in traffic and revenue, which leads to steady deleveraging and maintenance of low leverage levels coupled with strong debt coverage, in the absence of additional debt needs, could lead to positive rating action.

TRANSACTION SUMMARY

WVPA expects to issue approximately $160.7 million in Series 2018 senior lien revenue bonds. The bond proceeds will primarily finance off-turnpike projects as part of West Virginia's Road to Prosperity program. Off-turnpike projects are located within the 10-county area adjacent to the turnpike and are deemed complementary to the turnpike. Proceeds will also cover the costs of issuance, fund the debt service reserve account, and reimburse the authority for, or providing funding for, certain costs and expenses incurred prior to, or after, the series 2018 issuance for the acquisition, design, construction, reconstruction, maintenance, improvement, or repair of the associated turnpike projects.

Performance Update

Passenger vehicle traffic increased by 0.4% and commercial vehicle traffic grew by 2.8% in the first 9 months of fiscal 2018, resulting in total transaction growth of 0.7%. This follows 0.8% growth in passenger vehicles and 2.4% growth in commercial vehicles, a combined growth of 1.1%, in fiscal 2017. Total revenue for the first nine months of fiscal 2018 increased by 2.1% year-over-year, due to traffic increases and increased revenue from toll recovery activities. This follows a slight annual decline of -0.8% to $92.4 million in fiscal 2017. The decline in revenue was due to the increased use of discount programs. Operating expenses paid from pledged revenues declined by 1.8% year-over-year in the first nine months of fiscal 2018 due to a mild winter and reduced maintenance expenses. Fiscal 2017 operating expenses paid from pledged revenues increased by 6.4% over fiscal 2016 partially due to an increase in consulting attorney and engineering expenses related mainly to routine services and reports required.

As of Jan. 1, 2019, toll rates will double on the Turnpike, except for drivers of non-commercial Toll Class 1 passenger cars who sign up for the new flat fee program. Under the new flat fee program an eligible (non-commercial) Class 1 customer can obtain unlimited travel on the

Turnpike for an annual fee plus a one-time issuance fee for the vehicle transponder. The turnpike is offering a limited (one-time) early enrollment option that would allow eligible (non-commercial) Class 1 customers to participate in the flat fee program for calendar years 2019, 2020, and 2021 at a lower price. Customers must opt into the program prior to Dec. 31, 2018, to participate in the flat fee program and pay the lower price of $24, which covers all three calendar years through Dec. 31, 2021. For eligible Class 1 customers who sign up for the new flat fee program after Dec. 31, 2018, the charge for the new flat-fee program will be $25 per vehicle for one year of unlimited travel. Starting in calendar year 2022 and beyond all toll rates will increase nominally at 1.6% annually. The flat fee program charge of $25 per vehicle for one year will automatically increase by 5% every three years, beginning with an initial 5% increase on Jan. 1, 2022 and continuing with a 5% increase every three years thereafter. The recently approved increase in toll rates (including these built-in automatic increases) will fund the turnpike's capital program.

In 2017, Governor Jim Justice announced the $2.6 billion Roads to Prosperity Program to make necessary investments in the State's transportation infrastructure. The program has multiple funding sources including state general obligation bonds, GARVEE notes, and Turnpike toll revenue bonds. The series 2018 Turnpike toll revenue bonds are being issued primarily to fund projects in the Roads to Prosperity program. Projects funded with turnpike revenue bonds under the Roads to Prosperity Program are within the 10 counties adjacent to and closest to the turnpike. Planned issuance of approximately $222 million in calendar year 2020 will also be directed to the Roads to Prosperity Program, except for approximately $9 million, which will be used for the turnpike capital program.

Fitch Cases

Fitch's base and rating cases stressed the sponsor-projected growth in commercial traffic and the rating case also applies a higher elasticity to the toll increase for commercial vehicles. Operating expenses grow at 3% per year from fiscal 2020 through 2027 in the rating case, 50 bps higher than in the base case. Both cases assume 5.4% growth in operating expenses in fiscal 2019 due to an increase in toll collection costs to implement the new flat fee program.

WVPA's financial profile remains strong in both cases with base and rating case average DSCRs from fiscal 2021-2027 of 3.4x and 3.0x respectively. Fitch excludes the coverage in fiscal 2018 through 2020 in the average DSCR metrics since these years are outliers with lower debt service. Year-five leverage in fiscal 2022 is moderate in the base and rating cases at 4.3x and 4.7x respectively. Revenue growth breakeven analysis indicates that WVPA requires less than 0.5% annual revenue growth to meet obligations. The turnpike's strong financial metrics combined with its traffic profile support a 'AA-' rating.

Asset Description

The West Virginia Turnpike is an 88-mile long toll road extending from Charleston to Princeton, West Virginia. The Turnpike has 426 lane miles, 18 interchanges and 116 bridges. There are three mainline toll plazas along the Turnpike, at Ghent located at milepost 30, Pax at milepost 56, and Chelyan at milepost 83. There is also one ramp toll plaza located on Route 19, the North Beckley Exit at milepost 48, which collects tolls from vehicles coming from, or travelling toward, the south.

SECURITY

The senior lien bonds are secured by a pledge of net toll road revenues, which under the master trust indenture, is equal to gross toll road revenues less operations and maintenance expenses.

Concession revenues, and other revenues derived from the operation or use of service plazas and tourist and information centers, including the Tamarack center are not included.

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Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)
https://www.fitchratings.com/site/re/902689
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 22 Feb 2018)
https://www.fitchratings.com/site/re/10021263