

# **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.

Contact:

Primary Analyst  
Anne Tricceri  
Associate Director  
+1-646-582-4676  
Fitch Ratings, Inc.  
33 Whitehall Street  
New York, NY 10004

Secondary Analyst  
Tanya Langman  
Director  
+1-212-908-0716

Committee Chairperson  
Emma Griffith  
Senior Director  
+1-212-908-9124

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:  
sandro.scenga@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### 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>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a

security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.