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West Virginia Parkways Authority; Toll Roads Bridges

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Credit Profile		
US$160.7 mil sr lien tpk toll rev bnds ser 2018 due 07/01/2048		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings has assigned its 'AA-' rating to the West Virginia Parkways Authority's (WVPA) pro forma $160.7 million series 2018 turnpike toll revenue bonds. The outlook is stable.

The ratings reflect our opinion of the issuer's very strong enterprise and financial risk profiles. Our enterprise profile assessment reflects a turnpike that has exhibited generally resilient demand characteristics through different economic cycles as a result of limited competition and important linkages to surrounding states, and time savings. Our financial profile assessment is based on pro forma figures that reflect the WVPA's approved tolling plan, the effects of the series 2018 bonds and expected issuance of additional bonds in 2020, and the issuer's capital funding needs. We also evaluated the WVPA's financial profile assessment considering various sensitivities, concluding that the authority should be able to maintain debt service coverage (DSC), per our calculations, at levels we consider very strong.

The very strong enterprise risk profile reflects our view of the issuer's:

- Very strong market position due to the West Virginia Turnpike's relatively resilient demand characteristics given its important role in facilitating travel for passenger and commercial vehicles among Ohio, North Carolina, Kentucky, and Virginia with the lack of significant competition;
- Extremely strong service area economic fundamentals as result of the turnpike's location in a region with favorable economic activity;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, reflecting the authority employing prudent financial and capital planning practices, an approved tolling plan, and manageable debt burden.

The very strong financial risk profile reflects our view of the issuer's:

- Very strong financial performance that we expect to remain so as a result of the authority's approved tolling plan that we expect will allow it to maintain DSC, per our calculations, at levels we consider very strong, to address future debt service requirements;
- Very strong debt and liabilities capacity, reflecting enhanced revenue capacity from implementing its approved tolling plan and the resultant debt burden from the Proposed Obligations; and
- Strong liquidity and financial flexibility, which reflects our expectation that the issuer will maintain liquidity levels comparable to those maintained historically with a projected $58.0 million at fiscal year-end 2021 or about 472

days' projected operating expenses and the higher debt burden from the series 2018 bonds and expected issuance in 2020 with liquidity to debt near 15%.

The WVPA's net turnpike toll revenue secures the bonds. Post-issuance, the authority will have $160.7 million of revenue bonds outstanding as the 2018 bonds will be its only outstanding debt. Bond proceeds will be primarily used to finance a variety of off-turnpike projects with a nexus to the turnpike as well as to fund a debt service reserve fund equal to maximum annual debt service (MADS).

On June 22, 2017, West Virginia Governor Jim Justice signed Senate Bill 1003 into law, which authorized the authority to continue collecting tolls on the turnpike and/or adjust tolls for passage; issue toll revenue bonds for on-turnpike projects and off-turnpike projects with a demonstrated nexus to the turnpike; and implement a single-fee program in connection with any increase in its toll rates to provide toll class 1 passenger (noncommercial) motor vehicle customers using a West Virginia E-ZPass transponder with unlimited passage on the turnpike (or any future toll roads in the state) for an annual flat fee, not to exceed $25 per year (subject to adjustments of up to 5% every three years), plus a transponder issuance cost.

As authorized by Senate Bill 1003 and in conjunction with the issuance by the authority of the series 2018 bonds, the authority has adopted toll rate increases which will take effect on Jan. 1, 2019. The new toll rate schedule increases current toll rates by 100% for all classes of vehicles. In addition, the authority authorized forward-looking automatic toll increases that will begin on Jan. 1, 2022, equal to 1.60% per year for all cash, West Virginia E-ZPass, and non-West Virginia E-ZPass customers, with the increased cash toll rates to be rounded to the nearest $0.25.

One aspect of the authority's recently approved toll rate schedule relates to toll class 1 passenger motor vehicles (i.e., two axle passenger vehicles weighing less than 8,000 pounds and under 7 feet six inches driven for personal, noncommercial use), that have a West Virginia E-ZPass transponder. These passengers will be eligible for unlimited travel on the turnpike for an annual flat fee equal to $25 per year (plus transponder issuance costs), beginning on Jan. 1, 2019. On Jan. 1, 2022, the $25 annual flat fee will automatically increase by 5.0%, and will then automatically increase further by 5.0% on Jan. 1 of every third year thereafter.

Beginning on or about Sept. 1, 2018, the authority will offer its toll class 1 passenger (noncommercial) vehicle customers an option to enroll early in the single-fee program on or before Dec. 31, 2018, at a reduced rate of $24 (plus a transponder issuance cost, as appropriate) for unlimited travel on the turnpike through Dec. 31, 2021. This option will be available only for qualifying customers who sign up for WV E-ZPass prior to Dec. 31, 2018.

Outlook

The stable outlook reflects our opinion that the WVPA will maintain DSC (S&P Global Ratings-calculated) at roughly 3x or higher and its financial capacity to manage its rising debt burden will not diminish.

Upside scenario

Given the WVPA's additional debt plans, we do not expect to raise the ratings during the next two years unless the authority's DSC (S&P Global Ratings-calculated) increases to levels we consider extremely strong and sustainable.

Downside scenario

We could lower the ratings in the next two years if we believe revenue growth needed for the authority to maintain DSC (S&P Global Ratings-calculated) near 3x or manage its rising debt burden is constrained.

Enterprise Risk

Our assessment of WVPA's enterprise risk profile as very strong reflects its extremely strong economic fundamentals, low industry risk, very strong market position, and very strong management and governance.

Economic fundamentals

The service area, primarily the state of West Virginia, has extremely strong economic fundamentals due to favorable economic activity as measured by GDP per capita, unemployment levels near the national level, and a still-large population base despite current negative population growth trends.

Coal mining and manufacturing have traditionally anchored the state's economy, which, in our view, has historically exposed it to economic volatility--particularly energy-related shocks--and evolving structural changes in the sectors. Following a considerable slide in energy-related employment from 2015 to 2017, IHS Markit notes that the recovery from the state's energy-led downturn will be slow, with lost jobs in coal mining unlikely to return in significant numbers and difficult to replace. IHS reports that relative to a year ago (February, the latest available data), employment in the construction and mining sector grew 11.7%, although the information sector contracted 7.8%. The leisure and hospitality sector grew at a modest 1.6%, followed by manufacturing and educational and health services, which expanded 1.3% and 1.1%, respectively. Nevertheless, the state faces demographic challenges as the birth rate has been coming in lower than expected in recent years while the mortality rate has increased. Whatever the cause, these factors limit expansion of the labor force and opportunities to expand the economic base.

Market position

We consider the WVPA's overall market position very strong, reflecting a large and mature statewide system and its role a key provider of transportation infrastructure in West Virginia, serving both interstate and intrastate commercial and passenger traffic. The turnpike lacks significant competition from toll-free roads and has a strategic location, given its important role in facilitating travel for passenger and commercial vehicles among Ohio, North Carolina, Kentucky, and Virginia with the lack of significant competition.

Because of the system's important role and strategic location, it has had resilient and generally favorable traffic trends. From 2007-2016, a period that included the Great Recession, a spike in fuel prices, and a rate increase in 2009, turnpike traffic levels were relatively stable, with an average annual growth rate of 0.9%. Operating revenue decreased by 0.9% in fiscal 2017, although transactions grew by 1.1%. Toll revenue and total transactions in 2017 were $92.7 million and 37.4 million, respectively.

Management and governance

The WVPA's management and governance, in our view, is very strong, reflecting our view of the turnpike's strategic positioning; risk management and financial management; and organizational effectiveness. The management team has considerable expertise and experience due to its long tenure with the WVPA. Management provides quality disclosure and maintains a detailed long-range financial forecast.

Financial Risk

Our assessment of the WVPA's financial risk profile as very strong reflects its very strong financial performance, very strong debt and liabilities capacity, and strong liquidity and financial flexibility. Our financial profile risk assessment considered pro forma figures that reflect the issuer's approved tolling plan, the effects of the series 2018 bonds, and the issuer's capital funding needs. Our financial profile assessment also considered the WVPA's financial policies, which we consider credit neutral, and considered various sensitivities, concluding that the authority should be able to maintain DSC, per our calculations, at levels we consider very strong.

As a result of the most recent traffic and revenue study by CDM Smith (the authority's consultant), in July 2018, total adjusted gross toll revenue is estimated to increase to $182 million by fiscal 2050 from $90 million in fiscal 2017, or 2.2% annualized growth, due to a combination of flat transaction growth and the implementation of the new tolling program discussed above.

In terms of annual transaction growth, the forecast assumes relatively flat transaction levels through 2050, which we consider reasonable and achievable based on the mature nature of the turnpike system. Although revenue growth is expected to grow materially during the forecast period, we are expecting financial metrics to be maintained comparable to historical levels.

Financial performance

We view the WVPA's financial performance as very strong, which we expect to continue. The assessment incorporates our expectation that the authority will maintain total DSC, as per our calculations, near or above 3x; its demonstrated willingness and ability to raise tolls as necessary to meet or exceed projections; and its resilient and generally favorable traffic trends.

DSC (S&P Global Ratings-calculated), based on audited results has been strong, exceeding 4x for fiscal years 2013-2016 and as of 2017, DSC was 4.88x. Including the series 2018 bonds and after the expected issuance of turnpike revenue bonds in 2020, DSC is expected to decline but be maintained near or above 3x during the forecast period through 2028.

For the WVPA to maintain DSC (S&P Global Ratings-calculated) near or above 3x, it will require successful implementation of the new tolling program, which we believe is attainable given the authority's demonstrated ability and willingness to increase tolls when needed and generally favorable traffic trends during rate-adjustment periods in the past.

Debt and liabilities capacity

The WVPA's debt capacity, in our view, is very strong currently and we expect it to remain so, including the additional borrowing plans in 2020. The WVPA's pro forma debt to net revenues in fiscal 2021 is expected to be 5.3x, and we expect it to remain near that level including the additional borrowing in 2020. Other than the proposed issuance of approximately $222 million in 2020, the authority has no other additional borrowing plans. The WVPA recently defeased the remaining outstanding balance on its series 2002 bonds and redeemed the outstanding balance on its series 2008 bonds and those obligations are no longer outstanding. Additionally, the 2008 bonds were variable rate and synthetically fixed with an interest rate swap; that swap was recently terminated when those bonds were defeased.

Liquidity and financial flexibility

The WVPA has a strong liquidity position, in our view, which we expect to continue as it has no plans to draw down from its current position. As of June 30, 2017, the authority had an unrestricted cash and investments balance of about $88.5 million, or about 673 days' unrestricted cash on hand to cover operations, representing an increase from $77.7 million, or 581 days' unrestricted cash on hand, compared with fiscal 2016 figures.