MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to North Carolina Turnpike Authority's Series 2020 state appropriation revenue refunding bonds; outlook stable

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New York, November 04, 2020 -- Moody's Investors Service has assigned a Aa1 rating to North Carolina Turnpike Authority's (NCTA) Monroe Expressway System State Appropriation Revenue Refunding Bonds, Series 2020 (Federally Taxable). Pursuant to the bond resolution, the par amount of the bonds shall not exceed $101 million. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on NCTA's state appropriation revenue bonds is based on the State of North Carolina's obligation to make an annual appropriation from the state's Highway Trust Fund for the repayment of debt service. The one-notch distinction in the rating from the State of North Carolina's Aaa general obligation rating incorporates the essential nature of the road projects financed by the bonds and the moderately strong legal structure, including the risk of non-appropriation. Although the state appropriation revenue is not subject to annual reauthorization, the state General Assembly reserves the right to reduce or suspend appropriations to NCTA.

RATING OUTLOOK

The NCTA state appropriation revenue bonds carry the stable outlook of the State of North Carolina, which reflects conservative fiscal management and budgeting practices that will mitigate revenue losses resulting from coronavirus-driven economic disruptions.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Given that the bonds are rated based on the state's Aaa rating and notched once off the state's rating due to the risk of non-appropriation, an upgrade is unlikely

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A downgrade of the State of North Carolina's rating

- Non-appropriation of needed funds for debt service

LEGAL SECURITY

The bonds are secured by a $24 million annual appropriation to NCTA from the state Highway Trust Fund (HTF) for the Monroe Connector System project. The continuing appropriation from the fund requires no additional acts of the state General Assembly. However, the state General Assembly reserves the right to reduce or suspend appropriations to NCTA.

HTF revenue, which amounted to $1.6 billion in fiscal 2020 (based on unaudited figures), consists of transportation-related taxes and fees. From fiscal 2015 to 2020, HTF revenue grew by a compound annual growth rate of 4.6%. Fiscal 2020 revenue declined by 2.8% compared with fiscal 2019 because of economic disruptions caused by the coronavirus. Based on the state's May revised consensus revenue forecast, fiscal 2021 revenue is projected to decline by 4.5% compared with unaudited fiscal 2020 revenue.

The primary sources of revenue in the HTF are a 3% highway use tax levied on the retail value of motor vehicles and about 29% of state motor fuels tax revenue. Together, these two sources provide nearly 90% of total revenue in the HTF. Based on legislation passed in July, the percentage of motor fuels tax revenue to be deposited into the HTF was lowered to 19% in fiscal 2021, but will rise to 25% by fiscal 2023.

The HTF is primarily used for pay-as-you-go capital financing for the state's highway and transportation projects as well as debt service on the state's general obligation (GO) bonds for highway purposes and limited obligation Build NC bonds. All GO bonds for highway purposes were repaid in fiscal 2020. The General Assembly has also statutorily committed to annual transfers of $25 million to NCTA for the Triangle

Expressway System project and $45 million to the North Carolina State Ports Authority from the HTF. Coverage of the HTF's general obligation debt service, outstanding Build NC bonds debt service and annual statutory commitments in fiscal 2020 was strong at 7.4 times, despite the decline in revenue.

In April, the cash balance of the North Carolina Department of Transportation's (NCDOT) HTF and Highway Fund fell below the statutorily-required minimum amount because of revenue declines caused by coronavirus-driven economic disruptions and unexpected spending for disaster cleanup and litigation in 2019. The decline in the cash balance did not affect the state's ability to make debt service payments from the HTF. Based on legislation passed this year, NCDOT has made several changes to ensure structurally balanced operations in the HTF and Highway Fund going forward. NCDOT will create a comprehensive cash-spend plan and have an annual performance audit, funds have been reallocated between the HTF and Highway Fund for cash management purposes, a motor fuels tax floor of 36.1 cents per gallon will be in effect for calendar year 2021 and NCDOT has extensively reprogrammed its Statewide Transportation Improvement Plan (STIP) to respond to coronavirus-driven revenue declines as well as the reallocation of funds between the HTF and Highway Fund. These changes will help to maintain stability in the HTF and Highway Fund. As of July, the cash balance of the HTF and Highway Fund has returned to the statutorily-required level.

USE OF PROCEEDS

Proceeds from the Series 2020 bonds will be used to refund certain outstanding maturities of Monroe Connector System State Appropriation Revenue Bonds, Series 2011 for savings. The issuance of the Series 2020 bonds requires approval from the North Carolina Local Government Commission (LGC), which is still pending.

PROFILE

NCTA was created by the state in 2002 to provide alternative financing for key transportation projects. The authority falls under the North Carolina Department of Transportation as an agency of the state. NCTA is authorized to design, establish, purchase, construct, operate, and maintain no more than 11 projects. The nine-member board that serves as the governing authority for NCTA is comprised of four appointments from the state General Assembly, four appointments from the Governor, and the state Secretary of Transportation. Bonds issued by NCTA are subject to approval by the LGC, which is a division of the State Treasurer's office responsible for oversight of local government finance in the state.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Pisei Chea
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Genevieve Nolan
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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