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CREDIT OPINION
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Update

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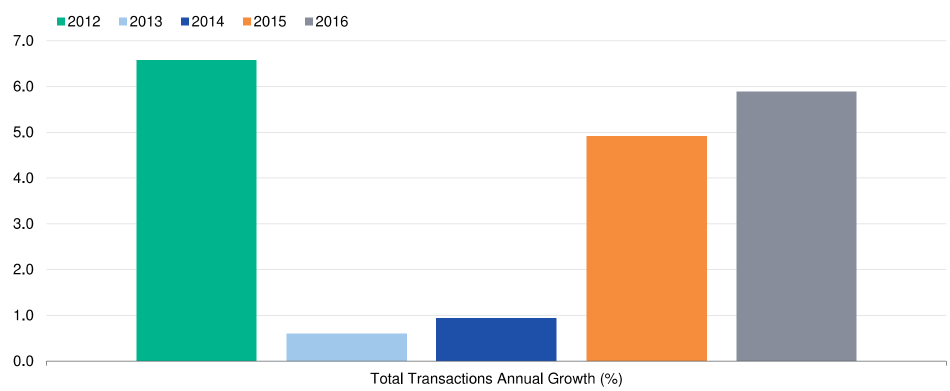
Kansas Turnpike Authority

Update: Moody's upgrades rating on Kansas Turnpike Authority's Turnpike Revenue Bonds to Aa2; outlook stable

Summary Rating Rationale

Moody's Investors Service upgrades the Kansas Turnpike Authority's (KTA) senior toll revenue bond rating to Aa2 and maintains a stable outlook. The upgrade reflects a long history of stable financial performance including debt service coverage ratios (DSCR) above 3.0x, implementation of rate increases as needed to maintain system operations and assets in good condition and above average liquidity levels in excess of two years days cash on hand (DCOH). Additional credit strengths are that KTA has a history of conservative financial management and a capital program that we expect will be primarily funded through internally generated funds rather than cash.

Exhibit 1
Transaction Growth Trend 1



Source: Moody's financial ratio database. Note drop in FY 2013 transaction growth due to toll rate increase.

Credit Strengths

» Established, state-wide toll road with a history of strong financial performance

» Stable traffic trends through the recession combined with a history of toll increases

» Future capital plans to be cash funded by toll rate increases and very limited borrowing

Credit Challenges

» A slowly growing state economy

» Limited population growth, indicating future toll revenue growth will depend primarily on rate increases

» Competition from I-35, a non-tolled alternative for the Emporia-Kansas City route, though the turnpike offers a more direct route to downtown Kansas City and supports heavy-load commercial traffic

Rating Outlook

The stable outlook is based on Moody's expectation that traffic revenues will continue to provide strong financial margins and above average DSCRs and that the authority will retain strong liquidity levels equivalent to two years DCOH while undertaking pay-as-you-go capital projects.

Factors that Could Lead to an Upgrade

» The Aa2 is the highest rating for the government owned toll road sector and is unlikely to go up

Factors that Could Lead to a Downgrade

» Tightening of financial metrics, or a substantial increase in debt for projects that don't generate toll revenues and weaken DSCRs below 2.5x

» A substantial decrease in liquidity below one year of days cash on hand

Key Indicators

Exhibit 2
Kansas Turnpike Authority Key Indicators

	2012	2013	2014	2015	2016
Total Transactions Annual Growth (%)	6.6	0.6	0.9	4.9	5.9
Debt Outstanding ($'000)	266,925	219,235	219,235	207,030	194,490
Debt to Operating Revenues (x)	2.9	2.2	4.4	1.9	1.7
Senior Lien Debt Service Coverage By Net Revenues (x)	2.16	2.46	5.73	3.07	3.30
Total Debt Service Coverage By Net Revenues (x)	2.16	2.46	5.73	3.07	3.30

Moody's Financial Ratio Analysis Database
Source:

Recent Developments

Detailed Ratings Consideration

The turnpike has a history of stable traffic growth with a five-year compound annual growth rate (CAGR) of 3.8% between 2011 and 2016 despite a toll increase in FY 2013. Fiscal year 2016 transactions have increased by almost 6%, which is ascribed to increased management ascribes to lower gas prices; however they flattened in FY 2017 (unaudited) to just 0.09% in part due to a toll increase implemented May 1, 2016.

Revenue Generating Base

The Kansas state economy continues to improve, although overall it remains below the US average. Unemployment continues to decline, and in May 2017 it stood at 3.7%, which was below the national average of 4.3%. The improving global economy will also boost commodity prices and demand for aircrafts in the state. These credit positives are counterbalanced by stagnant payroll growth over the past two years, and is one of the leading risk factors of a recession for the state. Farm earnings are down two-thirds from their 2013 peak and the first quarter slipped to a new eight-year low. This is a credit challenge for the state considering its high dependence on agriculture. Payrolls have exceeded their prerecession peak, agricultural prices are improving, and the state's business-friendly environment is a draw for new businesses. This is counterbalanced by slow population growth, state budget troubles, and over-reliance on manufacturing.

The turnpike is primarily a commuter road that serves major population centers in the eastern half of the state. Passenger traffic comprise about 89% of transactions and 67% of revenues, making it resilient to economic downturns. Commercial traffic tends to be more volatile, and the authority saw declines in both 2008 and 2009 and has been slow to recover since 2010; however in 2016 it was up 5% over its 2009 low. Some of the commercial traffic originates from and is destined for the interstate, which provides some insulation for the toll road's traffic profile from the Kansas economy.

The discrepancy in the percentage of revenue and transactions that passenger traffic represents is partly explained by the distance tolling system used, with shorter distances representing a larger number of toll transactions. Given that tolling is done by distance traveled, we would expect to see the impact in transactions rather than in revenues.

There is some competition from the non-tolled I-35 for the Emporia-Kansas City route. The turnpike offers a more direct route to downtown Kansas City, and supports heavy-load commercial traffic. This toll-free, tax-supported section of I-35 provides access to Ottawa before entering the Kansas City Metropolitan Area, where it serves Johnson County, and Kansas City, Kansas.

Through 2025 KTA projects 4.0% annual revenue growth. The revenue growth assumes 5% rate increases every other year starting in FY 2019, as well as a 10% increase to cash rates that year, but these are subject to board approval.

Operational and Financial Performance

While the authority has independent rate setting ability, all rate changes must be approved by the board of the directors, three of which are political appointees, and the remaining two are on the board by virtue of their status as elected officeholders in the State House and Senate. The authority has a history of intermittent toll increases going back to 1961, with more regular increases in recent years and expected going forward The current toll schedule was implemented on May 1, 2016. Customers driving two, three or four axle vehicles saw rate increases of 10% for electronic toll customers (or K-tag ETC) or 10% for cash. Vehicles with five or more axles saw a 10% increase in their tolls. This replaces the previous toll schedule, in effect since February 1, 2013. A full-length 236-mile trip from the South Haven interchange near the Oklahoma border to the Eastern Terminal in Kansas City costs $13.25 for passenger cars and $34.75 for a five-axle tractor-trailer, with discounts available for K-Tag ETC users.

The authority is planning for rate increases to be implemented biennially starting in 2019, but still requires formal board approval subject to the do so. Rates are planned to increase for both cash and K-tag ETC transactions at a rate of 5%, with the exception of a 10% increase for cash transaction in 2019.

Capital Improvement Program

KTA's Long Term Needs Study developed in 2015 suggests that 44 projects will be implemented over the next ten years for a total cost of $1.2 billion. KTA intends to fund their capital plan with user generated fees, however some enhancement projects may require additional debt financing. We note that KTA will serve as a partner rather than an issuer of debt, because future projects would occur on the Kansas Department of Transportation's (KDOT) system of highways. In the near term, KTA proposed just over $100 million in capital projects to be implemented between 2016-2020. The largest share of these costs is attributed to KTA's Open Road Tolling (ORT) Development Projects at the Eastern Terminal and Southern Terminal Road.

Going forward, the largest major capital project is the East Kellogg Improvement Project, which KTA is implementing in conjunction with KDOT and the City of Wichita. The total cost of the project is estimated at $210 million over the next five years, of which approximately $24 million will be the responsibility of KTA. Because KTA has more flexibility and liquidity, it is paying for up-front costs such as the acquisition of right of way out of its cash on hand and will be reimbursed by KDOT and the City of Wichita later on.

Financial Metrics

The authority has maintained strong debt service coverage ratios (DSCRs) above the Aa3 median of 2.35x for the past 10 years. After a slight dip in 2011 and 2012, the authority's debt service coverage ratio has recovered and achieved a new high of 3.30x on a Moody's net revenue basis for FY 2016. Unaudited financial results for FY 2017 indicate that DSCR will be above 3.45x based on growth in transactions and revenues as well as a toll rate increase in May 2016.

Debt to operating revenue has been declining steadily over the past five years thanks to the absence of new debt. It stood at 1.69x in 2016, putting it in the Aaa range per our rating methodology for government owned toll roads.

LIQUIDITY

As of FY 2016, unrestricted liquidity was very strong at over $142 million, having grown each year since 2012. Days cash on hand has grown steadily for the past 5 years and was in excess of 2 years in FY 2016 in anticipation of capital projects to be funded. Forecast balances are to remain comfortably above one year, net of annually funded maintenance reserves and capital projects. Management projects days cash on hand for FY 2017 to be above 746 days.

The authority has a history of building up cash reserves to help finance its capital projects. After completion of a budgeted project, the authority begins to increase its liquidity levels going forward to be used to support future capital projects.

The Replacement Reserve is budgeted at $26.5 million for FY2018, essentially the same as the $26.4 million for FY2017. However, KTA anticipates spending of $49.8 million on additional projects. This is a notable increase from 2017, where $36.3 million was requested (37% increase to 2018).

Debt and Other Liabilities

DEBT STRUCTURE

As of June 30, 2016, the authority had approximately $194 million in outstanding senior debt, of which approximately $6.1 million of outstanding Series 2002 bonds are rated. Moody's previously rated the Series 2003A bonds, which were refunded by the Series 2013A issue, and the Series 2004A-1 and 2004A-2 bonds, which were called in September 2014. The outstanding Series 2002 bonds are scheduled to mature on September 1, 2017. The remainder of the authority's debt is fully amortizing and extends to 2040.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The KTA's FY 2016 net pension liability (NPL) and Moody's adjusted net liability (ANPL) are $14,751,631 and $41,607,246, respectively. While large relative to the small amount of outstanding debt, the ANPL is manageable given KTS's large and steady annual cash flow.

Management and Governance

The board of the authority is comprised of five members: the Chairman of the Kansas Senate Transportation Committee, a member of the house Transportation Committee appointed by the Speaker of the House, two members appointed by the Governor of the State of Kansas for four-year terms, and the Secretary of KDOT. The chairman of the authority is elected by the other members.

The board has unrestricted rate-setting ability.

In 2013 legislation was passed to better align the operations of KTA with those of the Kansas Department of Transportation (KDOT) by minimizing duplication of effort, facilities and equipment. In practice, the interface between the two entities remains similar to what it was before the legislation. The KTA continues to collaborate on projects with KDOT, the largest one currently being the East Kellogg Improvement project to increase connectivity to the turnpike around Wichita.

We note that another outcome of the legislation has been a change in the authority's fiscal year from December to June, in order to better align its financial statements with those of KDOT. As a result, financial metrics from FY 2014 reflect only six months of operating data.

Legal Security

The bonds are secured by net revenues of the authority consisting primarily of toll revenues. In conjunction with the Series 2009A bonds, the trust indenture was amended and restated in two parts which were to become effective on September 1, 2012 and September 1, 2034, once the last of the bonds issued before 2009 (the Series 2002 bonds) are no longer outstanding. The first amendments, which became effective in 2012, included an increase in the debt service reserve requirement to 100% maximum annual debt service (MADS) (or the maximum allowed by the IRS), from a requirement that was 20% of MADS so long as coverage was above the rate covenant. In addition, the rate covenant was amended to 1.25 times from 1.20 times, and the additional bonds test was amended to meet a 1.25 times of MADS historic test or a 1.30 times MADS five-year prospective test (up from 1.20 times for both). The amended ABT also added treatment for variable rate debt service, requiring that the debt service for all puttable debt must include the total principal that could be accelerated in any year, and meet a 1.05 times historic,or 1.10 times five-year prospective test.

The second amendments (projected to be effective 2034, after all Moody's rated debt matures) include a transition to common debt service reserve funds from series specific reserves, and further amendments to the additional bonds test. The revised test will allow unlimited debt to be issued to reimburse a payment to a liquidity enhancement agreement, and allow completion bonds up to 10% of the original project debt.

Use of Proceeds

Not applicable.

Obligor Profile

The Kansas Turnpike is a 236-mile-long highway standard toll road that lies entirely within the State of Kansas (Issuer rating Aa2, stable), and connects its four largest cities: Kansas City, Topeka, Wichita and Lawrence in the eastern part of the state. This turnpike also connects the state with Interstate 70 and Interstate 35. KTA has been operating as a tolled road since 1956.

The published rating is the same as the grid indicated rating.

The grid is a reference tool that can be used to approximate credit profiles in the toll road sector in most cases. However, the grid is a summary that does not include every rating consideration.

Exhibit 3

Moody's Government Owned Toll Roads Methodology Scorecard

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	A	
	b) Operating History	Aaa	
	c) Competition	Aa	
	d) Service Area Characteristics	A	
2. Performance Trends	a) Annual Traffic Transactions	Baa	
	b) Traffic Profile	Aa	
	c) Five Year Traffic CAGR	Aa	
	d) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	Aaa	3.30x
	b) Debt to Operating Revenue	Aaa	1.7x
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	A	
	b) Limitations to Growth/Operational Restrictions	A	
Notching Considerations		Notch	
	1 - Debt Service Reserve Fund level	0	
	2 - Open/Closed Flow of Funds	0	
	3 - Days Cash on Hand	1	
	4 - Other Financial, Operating and Debt Factors	0	
Scorecard Indicated Rating:		Aa2	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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