

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

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New York, August 14, 2017 -- 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.

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

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.

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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