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## Kansas Turnpike Authority; Toll Roads Bridges; Transit

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## Credit Profile

US\$63.335 mil tpk rfdg rev bnds ser 2019A dtd 04/22/2019 due 09/01/2039

<i>Long Term Rating</i>	AA-/Stable	New
Kansas Tpk Auth tpk rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Kansas Tpk Auth TOLLFAC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Kansas Turnpike Authority's (KTA) proposed \$63.3 million turnpike refunding revenue bonds series 2019A, using its "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE) criteria. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on KTA's toll revenue bonds outstanding. The outlook is stable.

The rating reflects our opinion of very strong enterprise risk and financial risk profiles. The enterprise risk profile reflects our opinion that the turnpike is an important link in the state and regional economy, as well as a mature toll road with little competition. The financial risk profile reflects financial performance that we expect to improve, coupled with extremely strong liquidity and financial flexibility, with no immediate debt plans. The relative size of the facility within our rated universe and our expectation of continued stable demand and financial indicators also support our rating.

The enterprise risk profile reflects our view of the following credit factors:

- Very strong market position, as demonstrated by relatively stable demand trends during economic downturns, and the turnpike's role as an important economic link across the U.S. Midwest;
- The service area's extremely strong economic fundamentals, which reflect a good population size and below-average unemployment, but projected growth rates that are slower than the national average;
- The toll road sector's very low industry risk relative to that of other industries we rate; and
- Very strong management and governance, with management's conservative approach to financial and capital planning and track record of exceeding financial and operational goals.

The financial risk profile reflects our view of the KTA's:

- Debt service coverage (DSC; S&P Global Ratings-calculated) we expect to improve to above 3x given declining debt service requirements and containing all recurring cash-related expenses including expenditures, that preserve assets;

- Extremely strong debt and liabilities capacity, given strong debt to net revenues at 2.7x in fiscal 2018 and a manageable capital improvement program (CIP) without any near-term additional debt needs; and
- Extremely strong liquidity and financial flexibility, reflecting large available unrestricted cash balances above \$140 million since fiscal 2016.

The authority will use bond proceeds to refund the entire 2009A bonds outstanding, to fund a debt service reserve fund, and to pay costs associated with the issuance.

The authority's net revenue, which in addition to tolls, includes rental income from turnpike concessionaires, secures the bonds, as does the debt service reserve fund. The KTA amended its bond provisions for a common debt service reserve fund that secures all parity bonds and is funded to 125% of average annual aggregate debt service.

The KTA operates the 236-mile Kansas Turnpike, the only toll road in the state. The turnpike faces little competition from toll-free alternative routes and is an important economic link across the U.S. Midwest. The 41-mile eastern portion to Topeka is a section of U.S. Interstate 70. The rest extends from Topeka to the state's southern border, through Wichita, and includes an 82-mile portion of U.S. Interstate 35. The principal risks to turnpike demand, in our view, are economic cyclical; gasoline price shocks; and construction delays associated with the turnpike's preservation, modernization, and enhancement needs.

## Outlook

The stable outlook reflects our expectation that the KTA's financial profile will remain very strong and overall traffic trends will be generally stable with modest growth.

### Upside scenario

Over the next two years, if the authority can sustain DSC, per our calculations, near forecast levels that we view as very strong, we could raise the rating.

### Downside scenario

We do not expect to lower the rating given our expectation that very strong enterprise risk and financial risk profiles are unlikely to weaken in the next two years.

## Enterprise Risk Profile

Our assessment of the KTA's enterprise risk profile reflects the turnpike's economic fundamentals, industry risk, market position, and management and governance.

### Economic fundamentals

The service area's extremely strong economic fundamentals result from its meaningful population, with over 2.9 million residents in the state despite a projected three-year population growth rate that is lower than the nation's. Kansas unemployment (3.35% in 2018) is below the U.S. rate. We believe the service area's favorable economic fundamentals provide for a solid base level of demand for the authority.

## **Market position**

In our view, the KTA's overall market position reflects an economically important, mature toll road that connects key Kansas cities and provides an efficient route to transportation networks in other states. Historically, traffic levels on the turnpike have been strong, in our view, rising mainly due to strength in passenger car traffic. However, following flat traffic in fiscal 2017 at a record of 40.2 million vehicles traveling the turnpike, traffic decreased by 1.71% to 39.5 million vehicles in fiscal 2018. Passenger traffic represents approximately 91% of traffic and 66% of total toll revenues prior to discounts. The turnpike faces little competition and has a low toll rate structure. Effective Oct. 1, 2018, passenger car cash toll rates increased 12.5% to \$15, or \$11.15 with a K-TAG, whereas commercial toll rates increased an average of 10% with prices being dependent on amount per axle.

## **Management and governance**

The KTA management and governance is very strong, in our view. Management has established a track record of exceeding its financial and operational goals. We believe the management team acts prudently in managing the authority's assets and has good depth and breadth with considerable expertise and experience. The KTA has a debt management policy that targets a 3x DSC and a minimum of 2x DSC.

The authority consists of five members. The governor appoints two members to four-year terms; two are members of the state legislature; and the Kansas Department of Transportation's secretary is the fifth. The KTA's board is highly engaged in all aspects of the authority's performance and has full autonomy to change toll rates. The authority has limited capital needs and maintains its assets in good condition.

## **Financial Risk Profile**

Our assessment of the KTA's financial risk profile reflects the toll road's financial performance, debt and liabilities capacity, and liquidity and financial flexibility. In addition to the authority's historical performance, our financial profile risk assessment considered pro forma figures inclusive of the refunding, declining debt service requirements, no future toll-rate adjustments, and our expectations that future demand and subsequent net revenues will stay largely in line with expectations. Our financial profile assessment also considers the authority's financial policies, which we consider credit neutral.

## **Financial performance**

The financial performance assessment reflects the fact that KTA has maintained historically strong DSC, exceeding 2.0x over the past three years, including 2.8x at fiscal year-end 2018 (June 30), and our expectation that coverage will improve to levels above 3x in the near term. Our calculations account for all recurring cash-related expenses, including expenditures that preserve assets. We expect DSC (S&P Global Ratings-calculated) to increase to approximately 3.5x in fiscal 2020 from a declining debt service requirement schedule falling to approximately \$14 million in fiscal 2023 from \$22 million in 2018. In addition, management has indicated it has adopted a policy to target DSC above 3x, which does not account for cash expenditures that preserve assets. DSC calculated by KTA and per the indenture in fiscal 2018 was 3.5x. Our assessment is combined with management-provided forecasts and no near-term additional debt plans.

### **Debt and liabilities**

We assess the authority's debt and liabilities capacity based on our expectation that debt to net revenues will remain less than 5x, with no near-term debt plans. As of fiscal year-end 2018, the turnpike had \$167.8 million of bonds outstanding. After the proposed issuance, we expect the authority will have approximately \$141.1 million in principal outstanding. Management is working on a long-term needs assessment for the turnpike, which will result in updates to its CIP, which at this time has no additional debt needs. We view the authority's CIP as manageable and it will be funded from liquidity and recurring net revenues.

### **Liquidity and financial flexibility**

KTA's liquidity and financial flexibility assessment reflects our expectation that the authority will maintain available liquidity above 800 days' cash on hand. Over the past five years, the authority's unrestricted cash and investment position exceeded \$130 million. In fiscal 2018, unrestricted reserves were \$143.5 million, representing 827 days' operating expenses or 85.5% of debt outstanding. We expect that generally stable demand will support similar liquidity in the next two-to-three years.

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