S&P Global
Ratings

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Summary:

Kansas Turnpike Authority; Toll Roads Bridges

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Summary:

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Credit Profile		
Kansas Tpk Auth tpk rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Kansas Tpk Auth TOLLFAC		
Long Term Rating	AA-/Stable	Affirmed
Kansas Tpk Auth		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has affirmed its 'AA-' rating on the Kansas Turnpike Authority's (KTA) toll revenue bonds outstanding. The outlook is stable.

The rating reflects our view of the credit profile as an economically important, mature toll road with no immediate debt plans. It also reflects our assessment of management's stated commitment to raise tolls as necessary to retain 2x debt service coverage (DSC) as well as what we would consider a strong cash position.

More specifically, the rating reflects what we consider the following credit strengths:

- Continued strong liquidity;
- Little competition, coupled with a position as an important economic link across the U.S. Midwest; and
- Historically strong DSC that we expect will continue.

Offsetting credit factors include the KTA's long-term capital needs, which could reduce DSC levels if additional borrowing were to occur without appropriate revenue enhancements. In addition, although overall traffic was stable during the economic downturn, there has been some weakness in commercial traffic.

The KTA's debt outstanding is about $181 million. All debt is fixed-rate, and the authority has not entered any swap transactions. KTA has sole rate-setting powers.

The authority's net revenue, which includes rental income from turnpike concessionaires, secures the bonds, as does the debt service reserve fund. The KTA amended its bond provisions in conjunction with the series 2009 issue to include a debt service reserve funded to the IRS tax maximum; this provision does not retroactively apply to pre-2009 bonds.

The authority consists of five members. The governor appoints two to four-year terms; two are members of the state legislature. The Kansas Department of Transportation's secretary is the fifth.

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 the City of Wichita, and includes an 82-mile portion of U.S. Interstate 35. The principal risks to turnpike demand, in our view, are economic cyclicality, gasoline price shocks, and construction delays.

In our view, the KTA has maintained historically strong DSC, exceeding 2.0x in the past five years, including 2.8x DSC at fiscal year-end 2016 (June 30). Management's updated financial forecast showed DSC above 3.0x through 2025, which we view as strong. Management recently completed a long-term needs assessment for the turnpike to update its capital improvement program (CIP), which may require additional parity debt but plans have not been confirmed. We will evaluate the plan of finance when, and if, it becomes available.

We believe the KTA has a strong liquidity position; exceeding $80 million in each of the past five years, and representing no lower than 770 days' cash on hand (DCOH). In fiscal 2016, the authority's unrestricted cash was $142 million, or approximately 1,196 DCOH.

Historically, turnpike traffic levels have been strong, in our view. They rebounded from 2008 lows and have been positive for four of the past five years. Traffic in fiscal 2015 increased 4.9% and 5.9% in 2016, mainly due to strength in passenger car traffic. Commercial vehicle traffic had a modest 0.8% decline in 2015 but increased 2.0% in 2016.

Outlook

The stable outlook reflects our expectation that the KTA's financial margins will be strong and that overall traffic trends will be stable-to-positive.

Upside scenario

If the authority can fund the new CIP while maintaining strong DSC and liquidity level, we could raise the rating during the two-year outlook period.

Downside scenario

We could lower the rating if the authority experiences material erosion in its liquidity position. In addition, we could lower the rating if DSC is materially lower due to additional debt being issued to fund CIP projects without sufficient offsetting revenue enhancements.