

CREDIT OPINION

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Illinois State Toll Highway Authority

Update to credit analysis

Summary

[Illinois State Toll Highway Authority's](#) (Aa3 stable, ISTHA or the authority) strong credit profile is based on the authority's very strong market position characterized by the essential nature of its tollway system serving one of the nation's largest population bases and most diverse economies. Strong traffic and revenue growth trends through toll increases and state-level fiscal stress demonstrate the inelastic demand for the tollway system roads and limited competition. Debt service coverage remains strong, and leverage will increase somewhat as a result of plans to issue an additional \$1.5 billion through 2027 to fund the final portion of the Move Illinois capital program. While ISTHA is working on a future long term capital program and its respective funding, Moody's expects that some additional debt will be issued and that liquidity will decline from very strong current levels. However we believe that management will take action as needed on its toll structure to maintain its sound financial metrics. The authority does not rely on state funding and its credit profile acknowledges strong protections in the authorizing legislation, the master trust indenture, and the Illinois Constitution.

Credit strengths

- » Large integrated system of toll roads serves as an essential component of the Chicago area's transportation network and an important congestion reliever for commuters
- » Mature service area and a diverse user base comprising both commuters and interstate traffic has long, well-established history of steady growth
- » Strong actual and projected DSCRs expected to be maintained close to 2.0x despite the significant planned increase in debt through 2027
- » Inelastic demand through toll increases; a large commercial rate increase was implemented in three phases between 2015 and 2017, and starting in 2018 commercial rates increased annually based on inflation, yet commercial traffic continues to grow
- » Experienced management team has successfully implemented toll increases and adopted robust controls and processes for electronic toll collection and enforcement
- » Annual reinvestment in and improvement of facilities per inspection and recommendation of consulting engineer
- » Maintenance of strong liquidity despite annual funding of reinvestment in facilities

Credit challenges

- » Leverage expected to continue to increase due to additional debt issuance expected in the context of the current and future long term capital programs

- » Service area population on a net decline for the past 5 years
- » Increasing commercial traffic revenue concentration, which can be a more economically volatile portion of the user base
- » The authority's adjusted net pension liability (ANPL) is relatively high in relation to its outstanding debt and, since authority employees participate in the State Employees Retirement System (SERS), we expect the authority's ANPL to continue to be high in tandem with Moody's expectations for [State of Illinois](#)' (A3 positive) pension liabilities, resulting in pension contributions that may become a larger percentage of the authority's operating budget

Rating outlook

The stable outlook is based on the expectation that the authority will continue to exercise its rate-setting autonomy and that management will move forward with its capital programs in a manner to keep its strong financial metrics.

Factors that could lead to upgrade

- » Traffic and revenues that significantly exceed current projection, with Moody's net revenue DSCR above 3.0x
- » Adjusted debt to operating revenues below 4.0x
- » Substantial improvement in the state's credit strength
- » Liquidity remaining above 730 days cash on hand

Factors that could lead to downgrade

- » Substantial deterioration of the state's credit profile
- » DSCRs consistently falling below 1.75x on Moody's net revenue basis
- » Adjusted debt to operating revenues above 7.0x
- » Liquidity below 365 days cash on hand

Key indicators

Exhibit 1

Illinois State Toll Highway Authority

	2019	2020	2021	2022	2023
Total Transactions (thousands)	1,023,222	806,649	936,596	957,135	992,970
Total Transactions Annual Growth	1.4%	-21.2%	16.1%	2.2%	3.7%
Operating Revenue (\$ thousands)	1,484,506	1,260,950	1,459,804	1,554,480	1,529,376
Debt Outstanding (\$ thousands)	6,085,620	6,456,360	7,019,855	6,874,440	7,328,515
Senior Lien Debt Service Coverage by Net Revenues	2.7x	2.0x	2.3x	2.5x	2.4x
Adjusted Debt to Operating Revenues	5.1x	6.5x	5.9x	5.2x	5.5x
Days Cash on Hand	1,150	997	1,027	1,073	1,258

Source: Moody's Ratings

Profile

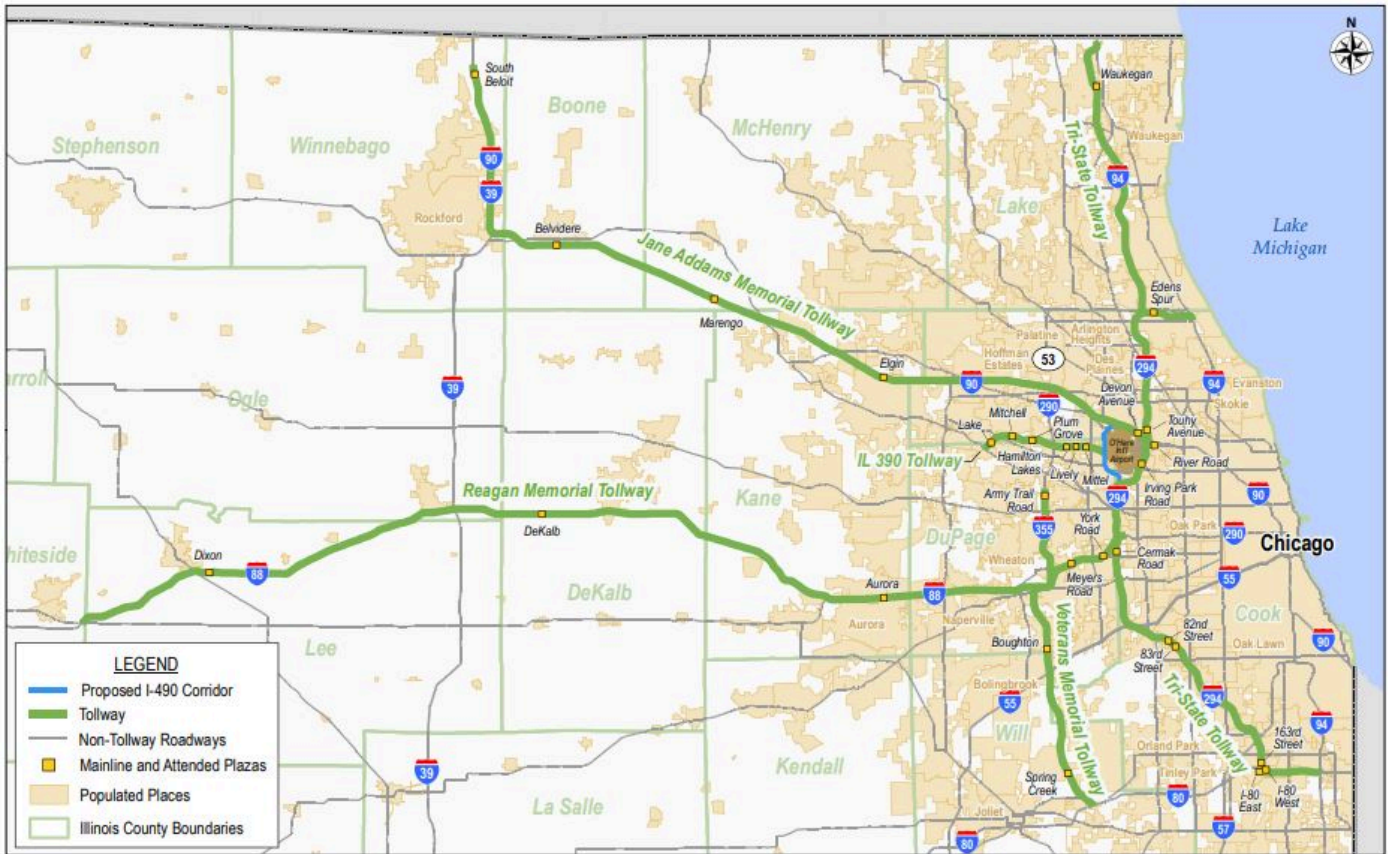
ISTHA operates a tollway system that consists of approximately 294 miles of limited access highway in twelve counties in the northern part of Illinois and is an integral part of the expressway system in northern Illinois. The entire tollway system has been designated a part of the US Interstate Highway System, except for the 10 miles of Illinois Route 390. The system consists of five components: the widened and extended Illinois Route 390 (formerly the Elgin O'Hare Expressway) whose widened 6.5 mile segment opened for tolling

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in July 2016, and whose 3.5 mile extension opened in November 2017. At completion the Elgin O'Hare Western Access Project will total 17 miles and provide Western access to O'Hare airport; the 76 mile Jane Addams Memorial Tollway, which constitutes a portion of US Interstate Highway 90; the 82 mile Tri-State Tollway constituting portions of US Interstate Highways 80, 94 and 294; the 30 mile Veterans Memorial Tollway (Interstate 355) which opened in December 1989 and was extended in 2007, and the 96 mile Ronald Reagan Memorial Tollway that constitutes a portion of US Interstate Highway 88.

Exhibit 2

ISTHA is an integral part of the expressway system in northern Illinois and covers the most densely populated area around Chicago



Source: ISTHA

Detailed credit considerations

Revenue Generating Base - Established system in one of the nation's largest economic centers with no planned competing facilities

ISTHA's large system and the economic strength of the service area provide it with a very strong revenue generating base. Though parts of the tollway system were first designed and constructed over 65 years ago, the authority was established in 1968 under the Toll Highway Act. The tollway system is now a multi-asset system of 294 centerline miles of interstate (except for the 10 centerline miles of IL Route 390) tollways throughout 12 counties in the greater Metropolitan Chicago Area. [Cook County](#) (A1 positive), [Du Page County](#) (Aaa) and [Lake County](#) (Aaa) make up the core tollway counties, from which the majority of toll revenue and transactions are generated. Cook County includes the [City of Chicago](#) (Baa3 positive). These counties are the most mature of the service area, with one of the largest population bases and diverse economies in the nation. The next "collar" of counties served by the tollway system includes [Will County](#) (Aa1 stable), Kane County (NR), [McHenry County](#) (Aaa) and [DeKalb County](#) (Aa1). These are the suburban counties which grew as the core counties became more constrained.

Chicagoland overall remains a major center for business, distribution, transportation and finance with a huge talent pool and a strong roster of well-regarded educational institutions. That said, Moody's sees the region lagging its peers in economic growth in the long

term due to weak population trends and budget pressures. Illinois' second-largest city, [Rockford](#) (A3), is connected to the tollway via the Jane Addams Memorial Tollway through [Winnebago County](#) (Aa3) and [Boone County](#) (Aa3). [Lee County](#) (Aa2) and Ogle County (NR) are on the western end of the Reagan Memorial Tollway and are largely rural.

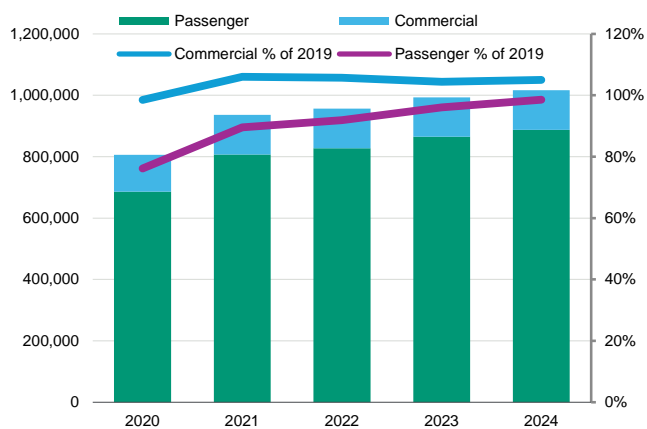
Competition to ISTHA's facilities will remain stable. There are no limited access freeways or other limited access highways under construction, and no Federal, state or other agency is now planning the construction, improvement or acquisition of any highway or other facility that may be materially competitive with the tollway system.

Operations and Financial Position - Strong revenue performance driven in part by commercial toll rate increases

ISTHA continued its strong performance in 2024, with toll revenue growing at 4.4% and traffic growing at 2.4% on a year over year basis. Better revenue performance is partly because of the toll rate increases implemented on commercial vehicles. For fiscal 2024, unaudited numbers show revenue was 104% of fiscal 2019 numbers and traffic was 99% of fiscal 2019 numbers. Commercial vehicles showed greater resilience and recovery from the pandemic when compared to passenger for both traffic and toll revenue, being at 105% and 113% of 2019 numbers, respectively. While the stronger performance of commercial vehicles was the main driver for overall strong performance so far, it also increases ISTHA's exposure to a downturn given higher share of revenues coming from typically more volatile performance from commercial vehicles.

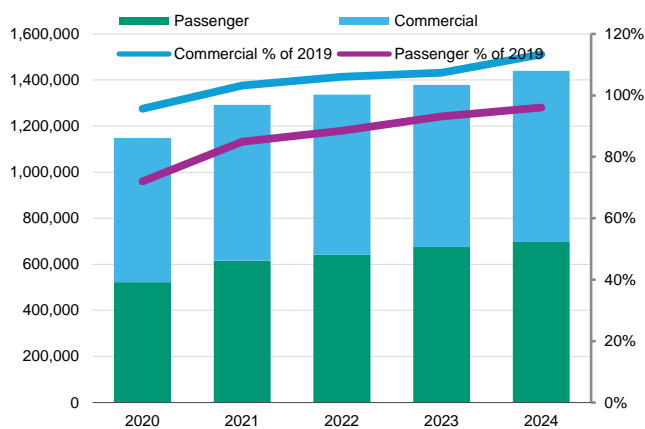
Beginning January 1, 2023, the annual commercial vehicle toll rate adjustment methodology was revised to be based on the annualized percentage change in the CPI-U over a 36-month period rather than a 12-month period. With that, the annual adjustment effective January 1, 2024 was 5.22% and future adjustments are expected to continue at higher than recent historical levels for longer.

Exhibit 3
Commercial vehicles recovered quicker than passenger vehicles in terms of traffic...
 Historical traffic performance



Source: Moody's Ratings, ISTHA

Exhibit 4
... and in terms of revenue as well, further boosted by commercial vehicles' toll rate increases indexed to inflation
 Historical revenue performance



Source: Moody's Ratings, ISTHA

Moody's net revenue coverage of debt service was strong at 2.44x in 2023. DSCR will remain strong, above 2.0x, if the authority's current revenue forecast is met.

Liquidity

The authority's unrestricted cash and investments for fiscal 2023 remained robust at 1,258 days cash on hand, about 18% higher than the average over the previous five years. While balances are forecast to be drawn down over time to fund ISTHA's current and future capital programs, we expect management to take action as needed to keep liquidity at sound levels.

Debt and Other Liabilities- As Move Illinois capital program wraps up, future longer term capital program is being developed

Capital Improvement Plan

ISTHA completed around 78% of the total \$15 billion Move Illinois program as year-end 2024. ISTHA expects \$6.3 billion of this plan to be financed by revenue bonds and the remainder by pay-as-you-go revenues. In addition to the \$4.8 billion of previous bond issuance, ISTHA projects approximately \$1.5 billion additional revenue bonds to be issued for the Move Illinois program with \$500 million being issued sometime in 2025. ISTHA has effectively managed both construction costs and schedules to date, but we think shocks from the inflationary environment and new uncertainties from tariffs could still somewhat pressure the last portions of the plan.

Of the \$15 billion Move Illinois capital program total capital spend, \$10 billion is focused on improvements to maintain, with some portions of widening, the existing tollway system. The remaining \$5 billion is directed to tollway system expansion and should result in modest increases in system traffic and revenue. ISTHA expects completion of the Move Illinois Program in 2027.

Beginning in 2025 is ISTHA's new 7-year \$2.0 billion capital program, Bridging the Future. Capital spending for this capital plan includes no additional debt, with funding relying on revenues and liquidity. This program is much smaller when compared to Move Illinois program, being 7 years relative to 16 years, as it will serve as a bridge between the Move Illinois program and the next long-term capital program. While the total size and funding of the next long-term capital program are yet to be defined, we believe management will take action as needed in its toll structure in order to maintain its sound financial profile.

Legal security

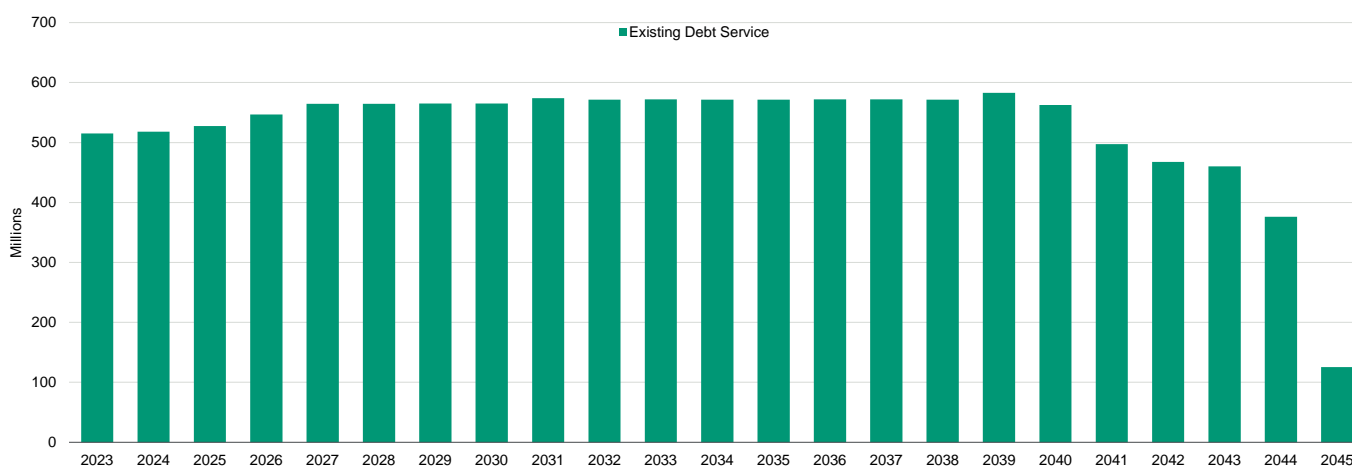
The bonds are secured by the net revenues of the toll highway system. The authority has by statute the right to set and collect tolls. Net revenues must be at least equal to 1.30x aggregate annual debt service on a trust indenture basis. The additional bonds test is also 1.30x. The debt service reserve requirement is equal to maximum aggregate annual debt service and is cash-funded save a \$100 million surety provided by [Berkshire Hathaway Assurance Corporation](#) (Aa1 stable IFSR).

Debt structure

ISTHA had \$7.33 billion outstanding at the end of 2023. All debt is fixed-rate and fully amortizing. Based on unaudited numbers, ISTHA had \$7.05 billion outstanding at the end of 2024. A key credit strength of the authority is the limitation around issuance of debt to maturities within 25 years, leading to faster amortization profile than its peers.

Leverage was at 5.49x adjusted debt to operating revenues at the end of 2023. With the expected debt issuances to fund the final portion of the Move Illinois, leverage is expected to continue to be below 6.0x, as leverage continues to quickly decline with high amortization and with modest revenue growth assumptions.

Exhibit 5
ISTHA Debt Service Profile



Source: ISTHA

Debt-related derivatives

None.

Pensions and OPEB

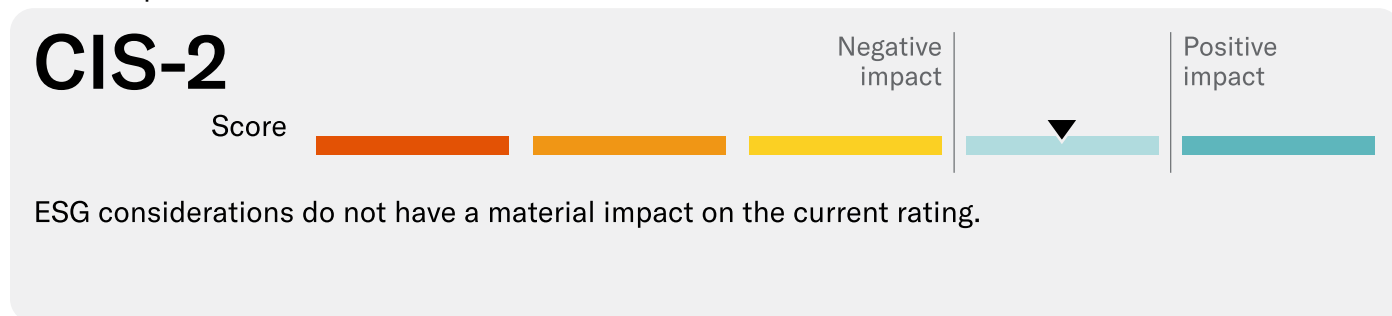
We adjust the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on the plan assets. Under our adjustment, we value liabilities using the [FTSE Pension Liability and Liability Index](#) (FTSE PLI), a high investment-grade long-term taxable bond index, as a discount rate to compute the present value of accrued benefits and a proxy for the risk of pension benefits.

Authority employees participate in the State Employees' Retirement System (SERS), a public employee defined-benefit pension plan. Pursuant to GASB 68, as of fiscal 2023, the authority reported a liability of \$774.2 million for its proportionate share of the state's net pension liability for SERS. Moody's calculates an adjusted net pension liability (ANPL) at \$1.1 billion based on our lower discount rate assumption. This amount is somewhat high (15%) in relation to ISTHA's in outstanding debt. While currently manageable, we expect the authority's annual pension obligations to remain high in tandem with the state's liabilities and become a larger percentage of the operating budget. This could exert negative pressure on future net revenues available for both capital projects and debt service.

ESG considerations

Illinois State Toll Highway Authority's ESG credit impact score is CIS-2

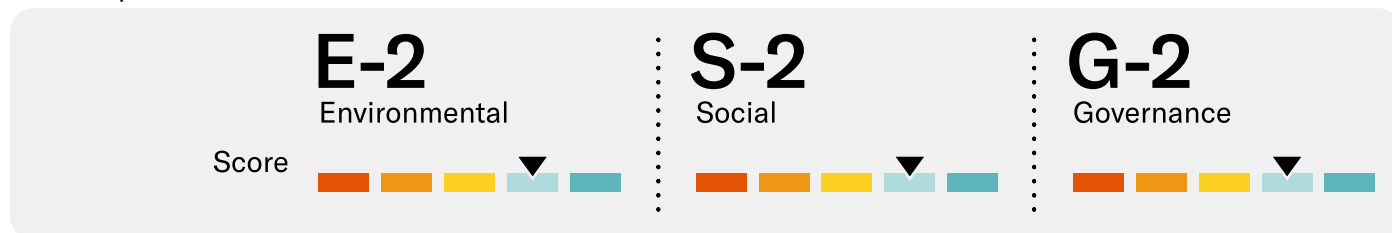
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Illinois State Toll Highway Authority's (ISTHA) **CIS-2** indicates that ESG considerations have a limited impact on the rating.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

ISHTA's **E-2** reflects limited exposure to environmental risks as it relates to physical climate risks, water management, waste and pollution, and natural capital risks that are heightened only during large scale construction projects. The increasing use of electric or hybrid vehicles still require the use of the roadways, limiting exposure to carbon transition risks impacts on traffic and revenue. While

roadway materials are carbon intensive (i.e., concrete and asphalt), wide use of sustainable alternatives have yet to become widely and affordably available and there has yet to be a rise in political or social pressure to decarbonize construction materials to date.

Social

ISTHA's **S-2** reflects limited exposure to social risks as it relates to demographics and societal trends, health and safety, human capital, and responsible production. Limited credit exposure to customer relations reflects affordable toll rates and an overall sound toll rate regime to maintain satisfactory financial metrics over the long term.

Governance

ISTHA's **G-2** reflects limited exposure to governance risks as it relates to financial strategy and risk management, management credibility and track record, and organizational structure. Credit exposure to board structure risks is moderately negative reflecting concentration of control. The authority is governed by an 11-member Board of Directors that includes the Governor of Illinois and the Secretary of the Illinois Department of Transportation, ex officio. Nine directors are appointed by the governor, with the advice and consent of the Illinois Senate, from the state at large with a goal of maximizing representation from the areas served by the tollway system. These nine directors are appointed for a term of four years, or in the case of an appointment to fill a vacancy, the unexpired term. No more than five directors may be from the same political party. Of the directors appointed by the governor, one is appointed as Chairman. ISHTA's exposure to compliance and reporting risk is moderately negative because the authority typically issues audited financial statements in July or later, seven or more months after the fiscal year end.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

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. Please see our Publicly Managed Toll Roads and Parking Facilities Rating Methodology for information about the limitations inherent to grids.

The Aa1 scorecard-indicated outcome is two notches above the Aa3 reference rating. The differential incorporates uncertainties related to future longer term capital program and risks associated with fiscal pressures at the state level such as sizable unfunded OPEB liability not incorporated in the scorecard.

Exhibit 8

Rating factors

Illinois State Toll Highway Authority (FY 2023)

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Aa	
	b) Competitive Position and Environment	Aa	
	c) Economic Strength and Diversity of Service Area	Aaa	
2. Performance Trends	a) Annual Revenue	Aaa	\$1.5b
	b) Operating Track Record and Revenue Stability	Aaa	
	c) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	Aa	2.4x
	b) (Debt + ANPL) to Operating Revenue	A	5.5x
Notching Considerations		Notch	
	1 - Debt Service Reserve Fund level	0.0	
	2 - Open/Closed Flow of Funds	0.0	
	3 - Days Cash on Hand	1.0	
	4 - Asset Ownership and Financing Structure	0.0	
	5 - Leverage Outlook	0.0	
Scorecard Indicated Outcome:		Aa1	

Source: Moody's Ratings

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