



RATING ACTION COMMENTARY

Fitch Rates Oklahoma Turnpike Authority's 2023 Senior Rev Bonds 'AA-'; Outlook Stable

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Fitch Ratings - New York - 20 Sep 2023: Fitch Ratings has assigned a 'AA-' rating to the Oklahoma Turnpike Authority's (OTA) approximately \$500 million series 2023 second senior revenue bonds. Fitch has also affirmed the rating on \$1.6 billion in outstanding second senior revenue bonds at 'AA-'. The Rating Outlook on all of the bonds is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Oklahoma Turnpike Authority (OK)		
Oklahoma Turnpike Authority (OK) /Toll Revenues - 2nd Senior Obligations/1 LT	LT AA- Rating Outlook Stable	Affirmed AA- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

RATING RATIONALE

The rating reflects the turnpike system's demonstrated mature and stable traffic profile along with significant rate-making flexibility. In addition, the system's financial profile in Fitch's forward-looking cases remains strong, factoring in an estimated \$2.5 billion of new debt issuances over the next 10 years to fund system expansions. The rating also recognizes

the availability of motor fuel excise tax (MFET) revenue in the flow of funds, which further enhances debt service coverage ratios (DSCRs) and supports the 'AA' category rating.

KEY RATING DRIVERS

Revenue Risk - Volume - High Stronger

Fitch has revised its assessment of Revenue Risk (Volume) to 'High Stronger' from 'Stronger' following the publication of its new Transportation Infrastructure Rating Criteria, which assesses volume risk on a five-point scale.

The Oklahoma Turnpike system consists of a diverse enterprise of eleven turnpikes, playing a critical role for intra- and inter-state traffic. The lack of alternatives in Oklahoma for long-distance travel and essentiality of the system contribute to an established and stable traffic demand base. The average toll rates of \$0.07 per mile for passenger cars and \$0.19 per mile for commercial vehicles remain competitive compared to Fitch's rated portfolio and demand has been substantially inelastic to past toll increases.

Revenue Risk - Price - Stronger

The OTA's board has the ability and demonstrated willingness to raise rates in excess of inflation without legislative approval. If pledged revenues or other available funds prove insufficient to cover debt service, the OTA is entitled to raise tolls in a timely manner or apply a portion of MFET collected on the turnpikes.

Infrastructure Dev. & Renewal - Stronger

The OTA has an ongoing five-year capital plan that focuses on asset preservation. Projects are funded by accumulated balances in the general fund and reserve maintenance fund. OTA is commencing ACCESS, a new 15-year long range capital plan to reduce congestion on existing turnpikes, improve safety and expand the system. The approximately \$5 billion ACCESS improvement plan will be funded with new debt issuances.

Debt Structure - 1 - Stronger

OTA's debt structure is entirely fixed-rate and fully amortizing. The debt service reserve is fully-cash funded and covers maximum annual debt service. OTA also benefits from a pledge of motor fuel excise taxes. Fitch does not expect OTA to access the MFET funds because net revenues well exceed debt service requirements.

Financial Profile

OTA maintains a healthy financial position due to stable traffic and revenue growth. Total DSCR was 2.4x in 2022 (2.0x excluding MFET). Under Fitch's rating case, the 10-year average DSCR is 2.1x (1.8x excluding MFET). Net debt/CFADS was low for the rating level 4.7x in fiscal 2022. Leverage increases with debt issuances for capital projects but remains commensurate with the rating at 7.2x in 2027 in Fitch's rating case. OTA has ample liquidity of over 800 days cash on hand as of fiscal 2022.

PEER GROUP

OTA's closest peers include Ohio Turnpike and Infrastructure Commission (OTIC, rated AA/A+, Stable Outlook) and Pennsylvania Turnpike Commission (PTC, rated AA-/A, Stable Outlook). Each operates long-distance segments in both urban and rural regions. OTA and OTIC benefit from low toll rates and considerable pricing flexibility compared to PTC, which has moderate toll rates and potential exposure to political risk. PTC's senior 10-year average rating case DSCR of 2.5x is comparable to OTA's average of 2.1x. OTIC's senior lien is subject to relatively restrictive covenants and is minimally leveraged with 10-year average DSCR in excess of 9x, supporting its higher 'AA' rating. Unlike OTIC and PTC, OTA's coverage is boosted by the MFET in excess of the standard net revenue pledge.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Declines in traffic and revenue performance or increased borrowing that result in coverage falling below 1.8x including MFET;

--Declines in traffic and/or legislative acts that negatively impact MFET apportionments.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Sustained Fitch rating case DSCR at or above 2.5x including MFET incorporating all future issuances.

TRANSACTION SUMMARY

OTA plans to issue \$500 million series 2023 second senior revenue bonds. Proceeds of the tax-exempt series 2023 bonds will be used to fund future ACCESS capital projects, reimburse previously authorized ACCESS capital expenditures, several years of capitalized interest, a deposit to the debt service reserve fund, and costs of issuance. The bonds are fixed rate, on parity with outstanding senior bonds, and mature in 2053.

CREDIT UPDATE

Transactions and toll revenues are respectively up 7% and 3% yoy in the first six months of 2023. Growth in transactions is partially due to the opening of the Gilcrease Expressway in November 2022. In 2022, transactions were approximately flat and toll revenue increased by 0.3%. Operating expenses increased 2% yoy YTD through June 2023 and 10% yoy in 2022. The increase in expenses is largely due to the continuing conversion to electronic tolling, salary increases, and the increase in supply costs due to inflation. OTA plans to complete the full conversion of the turnpike to cashless tolling by the end of 2024.

The ACCESS Oklahoma Program is an approximately \$5 billion, 15-year long range construction program developed to improve safety, add new routes, and facilitate economic development. The program is funded by the \$500 million series 2023 bonds and an additional \$2 billion in anticipated bond issuances through 2033. The final project of the approximately \$1.2 billion Driving Forward long-range capital program is under construction and projected to be completed in late 2023. The Driving Forward program included the addition of two new turnpikes, the Kickapoo and Southwest John Kilpatrick Turnpike extension, both of which opened in late 2020.

Litigation against the OTA to halt the ACCESS program has been resolved. Pike Off OTA had filed a lawsuit claiming that OTA did not have legal authorization to create the new routes in Cleveland County. The Oklahoma Supreme Court ruled in favor of the OTA, including approval to issue the series 2023 bonds. Pike Off OTA filed a petition for rehearing, which is expected to be resolved shortly. The 2023 bond issuance will move forward pending a denial of a rehearing.

Separate legislation accused the OTA of violating the Open Meetings Act in the announcement of the ACCESS Oklahoma program. The Oklahoma Supreme Court ruled in favor of the OTA and an appeal for a rehearing was denied. In March 2023, the Oklahoma Attorney General requested that the State Auditor commence an investigative audit of the authority, but no action has been taken to date.

The Gilcrease Expressway opened in November 2022. It completes a network segment between I-44 and US-412 to serve the Tulsa region. OTA contributed approximately \$149 million to the \$380 million project cost. The remaining costs were covered by public sector funding and \$125 million in bonds issued by the Oklahoma Development Finance Authority (ODFA). The ODFA bonds were paid off using \$120 million of proceeds from a TIFIA loan issued by OTA. Net revenue generated by the turnpike system is not pledged to the TIFIA loan. The only pledged revenue for the TIFIA loan is revenue generated by the Gilcrease

Expressway. The Gilcrease Expressway is a non-system project with a flow of funds governed by a non-system trust agreement.

FINANCIAL ANALYSIS

Fitch views OTA's cash flow assumptions for the next 10 years as reasonable and applies them to the base case. An initial toll rate increase is followed by toll increases every other year thereafter. The toll rate increases are applied to support debt service payments on an estimated \$2.5 billion of debt issuances to fund the ACCESS expansion program. The timing and amount of debt issued for the ACCESS plan is flexible and will vary depending on the turnpike's financial performance. Operating expenses grow at a 6.6% compound annual growth rate from 2023 through 2032 to reflect increased investment in toll collections and roadway expansion. The 10-year average DSCR from 2023 through 2032 averages 2.2x (1.8x excluding MFET). Year-five net debt/CFADs is 7.1x in 2027.

Fitch's rating case incorporates a hypothetical recession that causes a 1% decline in revenue in 2024. Revenue recovers to reach the revenue in the base case in 2026. Revenues subsequently grow at 0.5% lower per year than in the base case. Operating expenses increase by 0.5% higher than in the base case. The 10-year average DSCR from 2023 through 2032 is 2.1x (1.8x excluding MFET). Year-five net debt/CFADS is 7.2x in 2027.

SECURITY

The authority's revenue bonds are secured by revenues of the system after the payment of operating expenses in addition to the MFET apportioned to the OTA for deposit to the credit of the turnpike trust fund.

ASSET DESCRIPTION

The Oklahoma Turnpike Authority operates a system of 11 turnpikes comprising approximately 624 centerline miles. The OTA was created as an instrumentality of the State of Oklahoma in 1947 with power to construct, operate and maintain the turnpike system and issue turnpike revenue bonds payable only from tolls and other OTA revenues.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

[Infrastructure & Project Finance Rating Criteria \(pub. 17 May 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 (1)

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