

Oklahoma Turnpike Authority; Toll Roads Bridges

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Credit Profile

US\$500.0 mil oklahoma tpk sys 2nd sr rev bnds ser 2023 dtd 10/26/2023 due 01/01/2053

<i>Long Term Rating</i>	AA-/Stable	New
Oklahoma Tpk Auth VRDB 2nd sr 2006B-F		
<i>Long Term Rating</i>	AA-/NR/Stable	Affirmed
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Oklahoma Turnpike Auth		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term and underlying ratings to the Oklahoma Turnpike Authority's (OTA) \$500 million second senior revenue bonds, series 2023.
- At the same time, we affirmed our 'AA-' rating on the authority's debt outstanding.
- The outlook is stable.

Security

A pledge of net revenues of the turnpike system and motor fuel excise taxes apportioned to the turnpike trust fund secures the series 2023 bonds. Each month, the OTA receives a portion of the statewide excise taxes collected on fuel consumed on the turnpikes from the state tax commission, which can be used to cover debt service if needed.

However, we note that since 1992, the authority has not needed to use its apportionment of motor fuel taxes and amounts from this source have been paid over to the Oklahoma Department of Transportation.

The series 2023 bond proceeds will be used to finance a portion of capital projects and improvements of the authority constituting components of the Advancing and Connecting Communities and Economies Safely Statewide (ACCESS) Oklahoma program, including reimbursement of previously authorized capital expenditures. Proceeds will also be used to fund certain reserves and capitalized interest for between 2024-2027. Following the issuance of the series 2023 bonds, the OTA will have approximately \$2.2 billion of debt outstanding.

Credit overview

The long-term and underlying ratings on OTA's series 2023 bonds and debt outstanding incorporate our view that the authority's debt burden will materially increase from the authority issuing approximately \$2.5 billion in debt over the next 10 years to fund turnpike improvements and expansion projects included in its ACCESS Oklahoma program. At the same time, OTA will be reliant on frequent toll rate increases and generally favorable traffic trends to maintain financial metrics as its debt levels increase. The current rating also incorporates a one-notch positive holistic adjustment, reflecting our view of OTA as a large and mature system with exhibited resilient demand through different economic cycles and very strong management that has demonstrated the ability to adjust its operating expenses and debt-issuance schedule, when necessary, supporting our expectation that the authority will maintain strong financial

metrics over the outlook horizon. In addition, we believe OTA's relatively low toll rates support good rate-setting flexibility to manage these higher projected debt levels.

We believe the turnpike system benefits from favorable demographic trends and economic growth within Oklahoma City and Tulsa metropolitan statistical areas (MSAs), generating very strong demand for the system. OTA also has independent authority to set toll rates and has historically raised rates to support rising debt service requirements under previous capital programs. More specifically, the authority's long-term projections incorporate a phase-in of toll rate increases to service the rising debt load of the authority—including debt issued for the purpose of the ACCESS Oklahoma program. We will continue to monitor whether OTA's can sustain steady debt service coverage (DSC; S&P Global Ratings-calculated) levels by implementing these potentially regular toll adjustments over time to accommodate a rising debt burden without materially dampening future traffic demand and revenue growth on the turnpike system, which we view as important to its long-term credit stability.

Key credit strengths, in our opinion, are:

- The turnpike's very strong competitive position and resilient recovery in traffic demand following the COVID-19 pandemic, with an extensive network providing important links between and within Oklahoma City and Tulsa;
- Strong financial performance, including estimated pro forma DSC of 1.57x (S&P Global Ratings-calculated for 2024), and our near-term expectation that DSC will be maintained between 1.25x and 3.00x on a sustained basis;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a good population base, and unemployment and population growth rates that compare favorably to that of the nation; and
- Very strong management and governance, with an experienced management team that has demonstrated sound fiscal policies and prudent business decisions, while also capably managing recent litigation matters and navigating additional legislative oversight.

Partially offsetting these strengths, in our view, are the OTA's:

- Long-term capital plans that could significantly increase leverage from issuing about \$2.5 billion in debt over the next 10 years to fund the larger \$5 billion 15-year Oklahoma ACCESS program. In addition, the authority has substantial ongoing capital requirements, with \$701.6 million in pay-as-you-go projects associated with its 2023-2027 capital improvement plan (CIP).
- Potential for traffic volumes and toll revenues to be lower than forecast due to sensitivity to rising toll rates and possibly lower traffic from expansion projects.
- Potential project cost escalations that would require more debt to fund than currently assumed.

Environmental, social, and governance

When considering OTA's environmental, social, and governance (ESG) factors embedded in our credit rating analysis, we view them as neutral.

Outlook

The stable outlook reflects our expectation that OTA systemwide traffic levels will trend favorably, and that management will enhance revenues and adjust expenses, when necessary, to maintain financial metrics consistent with a strong financial risk profile as it debt finances its CIP.

Downside scenario

We could lower the rating if OTA's financial metrics fall short of its pro forma projections due to weakening traffic demand and net toll revenues, or if the authority takes on more debt than currently anticipated.

Upside scenario

We do not expect to raise the rating over the outlook period given the authority's considerable debt-issuance plans.

Credit Opinion

The Oklahoma Turnpike Authority

The OTA consists of 12 toll roads, 11 of which make up the system with the Gilcrease outside the system, totaling approximately 624 miles. The system includes urban and rural facilities, with three of its corridors making up the Interstate-44 corridor in Oklahoma. Under the ACCESS Oklahoma program, approximately 55 miles of additional toll roads are expected to be added to the turnpike system. In January 2023, the U.S. Bureau of Land Reclamation denied the initial request for use of federal lands and easements in one section of the proposed south extension route. We understand that OTA's engineering team is working with the bureau to determine another area to construct this portion of the turnpike expansion, which the authority does not believe will result in significant project delays.

Enterprise Risk Profile

Our enterprise risk profile assessment of very strong for the OTA, which remains unchanged, reflects the OTA's very strong market position reflecting its strong competitive position within the state, given the size and diversity of system assets. The system is strategically located, providing important links between and around Tulsa and Oklahoma City, as well as efficient routes to Arkansas, Missouri, and Texas. The system faces limited competition from mass transit and alternative routes. During fiscal year (Dec. 31) 2022, the turnpike experienced growth in toll transactions to nearly 195,900, or approximately of 105.2% compared with 2019 levels, while toll revenues increased to nearly \$359.1 million, or 9.7% above 2019 levels. Revenue performance has steadily grown for both commercial vehicle and passenger traffic levels, both of which exceeded pre-pandemic levels.

Multiple lawsuits against the authority challenging the ACCESS Oklahoma program were filed in state courts by various plaintiffs, which prompted OTA to temporarily halt preliminary design and engineering work and delayed the issuance of bonds associated with the program. However, following validation of the bonds and favorable resolution of court proceedings, the authority received conditional approval from the Council on Bond Oversight to issue the series

2023 bonds on Sept. 11, 2023.

While we do not view it to be an immediate risk to OTA's very strong management and governance, we continue to monitor potential near- and long-term credit implications for the authority associated with an investigative audit and recently enacted legislative changes. On March 15, 2023, Oklahoma's Attorney General sent a letter to the Oklahoma State Auditor requesting that the auditor undertake an investigative audit of the authority. At this time, OTA has received no additional communication from the state auditor on the scope or timing of the proposed audit. In addition, during the 2023 legislative session, the Oklahoma Legislature passed House Bill 2263 (HB 2263; and subsequently overrode a gubernatorial veto), which amends the provisions governing the appointment and removal of the OTA's Board of Directors. On or after Nov. 1, 2023, HB 2263 reduces the terms of new board appointments to six years from eight years, although existing board members will continue to serve for the remainder of the original term for which they were appointed. The bill also amends the governor's authority to appoint all six members of the board to two appointments, and grants the Speaker of the State House of Representatives the authority to appoint two members and the President Pro Tempore of the State Senate to appoint two members.

Financial Risk Profile

Our revised financial risk profile assessment of strong for the OTA, down from very strong, reflects a weaker debt and liabilities assessment, unchanged strong financial performance, and unchanged strong liquidity and financial flexibility assessments. Our financial risk profile assessment considered OTA's historically strong financial performance that we expect will be sustained given a relatively swift return in traffic demand and toll revenues above pre-pandemic levels. OTA's 2023-2033 financial projections incorporate future toll rate increases to provide for higher debt service costs, and the authority estimates system toll revenues to grow by 6.1% and total net revenues to increase by 5.8% over this period. Nevertheless, we expect escalating debt service requirements following the series 2023 and planned future issuances to temper our view of pro forma coverage (S&P Global Ratings-calculated), but we anticipate coverage to remain at a level that we view as strong between 1.5x and 2.0x. In addition, the OTA's debt and liabilities capacity, as measured by debt to net revenues, will likely be very strong, fluctuating near 10x. We also consider the authority's 2023-2027 CIP to be large, with \$701.6 million of planned projects funded on a pay-as-you-go basis, but we believe the authority has the flexibility to delay future capital spending or debt issuance, when necessary. We will continue to monitor how OTA manages its liquidity position (totaling \$244.2 million as of Dec. 31, 2022) as it implements its CIP, although we expect OTA's liquidity and financial flexibility to remain strong overall, with very strong pro forma unrestricted days' cash on hand (DCOH), at more than 400 days, and adequate reserves to debt at 7.5%-20%.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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