



## RATING ACTION COMMENTARY

# Fitch Rates Regional Transportation Authority, IL's \$93.5MM GOs 'AA+'; Outlook Stable

Wed 08 Sep, 2021 - 2:00 PM ET

Fitch Ratings - New York - 08 Sep 2021: Fitch Ratings has assigned a 'AA+' rating to the Regional Transportation Authority, IL (RTA or the authority) \$93.5 million general obligation (GO) bonds, series 2021A.

Fitch also affirms the following ratings on the RTA:

--\$1.4 billion GO bonds and notes at 'AA+';

--\$54 million GO variable rate notes (extendable reset securities) series 2005B at 'F1+'.

The Rating Outlook is Stable.

The series 2021A bonds are being issued to advance refund the RTA's series 2014A GO bonds. The bonds are expected to sell via competitive sale September 29th.

## SECURITY

The bonds and notes are general obligations of the authority, with a first lien on pledged authority sales taxes levied in Cook County, as well as the "collar" counties of DuPage, Kane, Lake, McHenry and Will, and public transportation fund (PTF) distributions from the state of Illinois.

## **ANALYTICAL CONCLUSION**

The 'AA+' rating is based on the high coverage of maximum annual debt service (MADS) from pledged revenues and the resilience of pledged revenues to the coronavirus-induced economic downturn and future cyclical stresses. The security structure includes a strong ABT mitigating risk to future leveraging. The 'F1+' rating on the series 2005B notes is mapped to the GO rating.

## **KEY RATING DRIVERS**

**Solid Revenue Growth Prospects:** Pledged sales tax and PTF revenues continue to show healthy growth despite persistent state PTF payment delays. Fitch expects future growth to outpace inflation but remain below the level of national GDP consistent with a 'aa' revenue growth assessment.

**Exceptional Financial Resilience:** Strong debt service coverage by pledged sales taxes and PTF revenues combined with limited volatility in the revenue history supports expectations for exceptionally strong financial resilience throughout economic declines consistent with a 'aaa' resilience assessment.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Although not expected at this time, improvements in expectations for revenue growth to a rate consistently above U.S. GDP.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--While improvements in state support is a positive for the authority, the state remains vulnerable to continued fiscal stress, which could result in future operating revenue reductions to the authority. These are unlikely to reach the point of materially diminishing resilience; nevertheless, severe revenue reductions beyond Fitch's expectations could weaken credit quality.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CURRENT DEVELOPMENTS**

Debt service coverage remains high despite a sales tax decline of over 6% in 2020, with sales tax and PTF revenue covering MADS by 4.3x including debt service on outstanding bonds and the \$150 million of working cash notes that had been due in 2022, but have since been repaid. In 2021, there were several positive developments for the RTA. Sales tax revenue is trending 14% higher than pre-pandemic levels through May (the latest available figures), largely due to the extension of the tax to capture online purchases.

Also, the PTF reduction that had been in place since 2017, which has recently been at 5%, has been eliminated as of July 2021. This had reduced funding by around \$18 million in 2020. The state has also reduced its backlog of payments to the RTA from \$126 million at the end of 2020 to around \$50 million as of mid-August 2021. This has enabled the RTA to eliminate its \$150 million working cash notes liability as of Sept. 1, 2021.

## **DEDICATED TAX CREDIT PROFILE**

Limited Operational Risk: The authority does not directly provide transportation services and has little operational risk exposure. Therefore, Fitch does not maintain an Issuer Default Rating on the authority.

### **Broad-based Pledged Revenues**

The bonds and notes are general obligations of the authority, with a first lien on authority sales taxes levied within Cook County and the collar counties, and PTF revenue, which is a statutorily-required 30% state match of regional sales and real estate transfer tax for CTA generated within the city of Chicago. The sales tax rate is set according to state statute and may not be amended without legislative action.

Solid Revenue Growth Prospects: Sales taxes provide approximately three quarters of pledged revenues. Pledged sales and sales tax-related PTF revenues have shown solid growth over the past 10 years, with a 10-year CAGR of 2.4% despite a 6% decline in 2020. These gains have continued despite ongoing state delays of PTF payments over that time, imposition by the state of a permanent 1.5% administrative fee on sales taxes, and varying legislative reductions in PTF distributions since 2017. Notwithstanding these challenges, Fitch expects the strength and diversity of the Chicago-area economy to support a solid pace of revenue growth over time.

### Low Revenue Stream Sensitivity

In 2020, gross sales tax and PTF revenue coverage of MADS at the additional bonds test of sales tax revenues equal to 2.5x MADS was solid at 4.3x, inclusive of the bullet maturity of \$150 million in working cash notes, which have since been repaid. The early repayment of the working cash notes has significantly improving pro-forma MADS coverage to over 7.0x.

To evaluate the sensitivity of the dedicated revenue stream to a moderate recessionary decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) via the Fitch Analytical Stress Test (FAST) and the largest pledged revenue decline over the period covered in the sensitivity analysis. The FAST decline was 1.3% and largest cumulative revenue decline for this period was 6% (fiscal 2020). The resilience cushion under both the FAST scenario and largest decline is consistent with a 'aaa' assessment, assuming issuance to the ABT.

### Criteria Variation

None

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

### 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.

### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING	PRIOR
Regional Transportation Authority (IL) [General Government]		
● Regional Transportation Authority (IL) /General Obligation - Limited Tax - Dedicated Tax/1 LT	LT	AA+ Rating Outlook Stable Affirmed
		AA+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

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

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

**ADDITIONAL DISCLOSURES**

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Regional Transportation Authority (IL)

EU Endorsed, UK Endorsed

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