S&P Global
Ratings

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Summary:

Regional Transportation Authority, Illinois; General Obligation; Sales Tax

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Summary:

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Credit Profile		
US$95.0 mil taxable GO rfdg bnds ser 2021A dtd 10/07/2021 due 06/01/2044		
Long Term Rating	AA/Stable	New
Illinois Regl Transp Auth sales tax (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth GO rfdg bnds ser 2017A dtd 08/01/2017 due 07/01/2035		
Long Term Rating	AA/Stable	Outlook Revised
Unenhanced Rating	NR(SPUR)	Current

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA' rating on Regional Transportation Authority (RTA), Ill.'s existing general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AA' rating to RTA's anticipated $95 million series 2021A taxable GO refunding bonds.

The stable outlook reflects our view of RTA's stabilizing underlying creditworthiness, supported by its resilient pledged revenue performance. Actual revenue collections outperformed projections for 2020 and in the first half of 2021, at least partly due to the expansion of taxable sales to include internet transactions. Additionally, we note the recent infusion of federal stimulus grant dollars bolstered RTA's liquidity position and provides important financial flexibility for the next 24-36 months as its service boards adjust to changes in ridership.

The 'AA' rating reflects the application of our "priority-lien" criteria, published Oct. 22, 2018, which factors in both the strength and stability of the pledged revenue, as well as RTA's general credit quality.

Bond proceeds will be used to refund the outstanding portions of 2014A GO bonds. The RTA has roughly $1.5 billion GO bonds secured by its full faith and credit GO pledge and first-lien pledge of sales tax and public transportation (PTF) revenue, as well as other lawfully available funds. RTA also maintains on a subordinate basis a liquidity instrument that allows for up to $250 million in working cash notes.

Credit overview

The RTA allocates funds and provides oversight and planning functions for three service boards that provide train and bus service, including the Chicago Transit Authority, the Metra Commuter Rail Division, and the Pace Suburban Bus Division. The authority's roughly 3,700-square-mile service area has an estimated population of 8.4 million. The service area and coterminous sales tax base consists of Chicago; Cook County; and the five collar counties DuPage, Kane, Lake, McHenry, and Will.

We expect fluctuations in economically sensitive revenue but given the size, scope, and diversity of the economic base, we do not believe pledged sales tax revenue will exhibit higher volatility than the sector as a whole and will likely support strong maximum annual debt service (MADS) coverage on all of RTA's outstanding sales tax revenue bonds. Sales tax revenue is stabilizing in 2021 and halfway through the calendar year, it is on track to outperform the original $1.047 billion forecast, helped in part by revenue generated from taxable online purchases, a component not originally factored into RTA's revenue forecasts. Actual, audited sales tax revenue in 2020 came in at $1.179 billion, better than the $1.053 billion originally forecasted by RTA officials. While this represented a 6% year-over-year drop from fiscal 2019 levels, it is better than the forecasted 16% drop. Officials have not amended their forecasts for fiscals 2022 or 2023 at this time, which call for sales tax revenues to steadily recover and reach $1.17 billion by 2023. In our view, RTA's near-term revenue volatility is hedged by federal stimulus grant dollars and its maintenance of lines of credit. As such, we believe liquidity will also remain strong.

While we believe that some downside risk remains dependent on the pace of economic recovery, we believe that the RTA's strong coverage and conservative projections mitigate the risk for material deterioration in credit quality. For information on S&P Global Economics' latest outlook, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here it Comes", published June 24, 2021.

Key credit considerations include:

- Very strong economic fundamentals, with a tax base encompassing most of the large and diverse Chicago metropolitan statistical area (MSA) economy;
- Our view that nationwide and the metro area's sales taxes have historically demonstrated low revenue volatility;
- Strong all-in 2.43x MADS coverage of both senior lien and subordinate lien debt by actual fiscal 2020 sales tax revenue alone; and
- The priority lien rating on the bonds is limited by our view of the RTA's creditworthiness.

Environmental, social, and governance factors

Our rating considers the ESG risks relative to RTA's GO bonds' economic fundamentals, revenue volatility, coverage and liquidity, and obligor's creditworthiness. The RTA is still exposed to social risk in the form of the health and safety risks posed by the COVID-19 pandemic and its effect on economic consumption, which is also factored into the RTA's forecasts. Absent the implications of the pandemic, we consider the RTA's environmental and governance risk to be in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if substantial declines in sales tax and other general revenues lead to material weakening in RTA's general creditworthiness as the linked obligor. If that occurs, we could lower the priority lien rating, possibly by multiple notches depending upon the severity and duration of the revenue declines. Furthermore, we may lower the rating if debt service coverage (DSC) is materially diluted beyond current projections, either because the RTA issues additional bonds or its pledged revenue materially weakens.

Upside scenario

We could raise the rating should debt service coverage materially increase and be sustained at higher levels, and our view of the RTA's general creditworthiness improves due to stronger economic and operating conditions.

Credit Opinion

Economic fundamentals: Very strong

The six-county area subject to the RTA sales tax has a population of roughly 8.4 million. Chicago is the anchor to the Chicago-Naperville-Elgin MSA, which has a population of more than 9 million. Chicago has a very diverse economy, it is a transport hub, and it maintains its status as a regional business center.

Strong coverage and liquidity

The RTA reported, on a modified accrual basis, $1.18 billion of sales tax revenue in fiscal 2020, providing a strong all-in 2.43x MADS coverage by sales tax revenue alone. This factors in the assumption of full drawdown of its $250 million subordinate lien working cash notes and interest. MADS coverage of senior lien debt is 5.78x.

Pro forma debt service schedules show total and MADS of $485.2 million occurring in 2022, but this assumes full draw down and repayment of the $250 million note plus interest calculated at 13.5%. Senior-lien debt service in 2022 is roughly $204 million. Officials originally projected 2021 revenue would come in at $1.05 billion, providing potentially 2.16x MADS coverage, but revenue collected to date suggests the year will likely end with much stronger collections at $1.24 billion, or 2.55x MADS. Officials have forecasted relatively flat sales tax revenue for 2022 and 2023. Senior-lien debt service from 2023 and onward is on a declining schedule, indicating the potential for continued at least strong coverage.

RTA's revenue consists of sales tax, PTF revenue, replacement fund revenue, and other miscellaneous sources. Sales tax revenue is collected by the state department of revenue and forwarded monthly (though on a three-month lag) to the bond trustee for debt service first with residual amounts remitted to the authority. State PTF funds, which provide 30% matching of sales tax revenue and are subject to continuous appropriation by the state, flow monthly directly to the bond trustee, with amounts not needed for debt service remitted to the authority.

The additional bonds test is based on sales tax revenue coverage alone, not factoring in PTF and other revenue. Additional obligations on parity with the authority's long-term bonds are subject to a revenue test that is equal to at least 2.5x MADS. For the purposes of the revenue test, sales tax revenue is equal to half of the sales tax revenue for the most recently completed 24 months, which does not line up with the RTA's fiscal year-end of Dec. 31.

Our calculation of coverage conservatively excludes PTF revenue, which is continuously appropriated by the state but has been subject to state payment delays, unlike sales tax revenue, which is not subject to appropriation or any payment delays. To date, officials indicate the state is largely up to date on PTF distributions. However, when the delays were particularly acute, the RTA began issuing working cash notes to buoy its cash flow and allow the RTA to provide uninterrupted dissemination of PTF funds to its service boards. Although the state is largely caught up in its payments, the RTA maintains cash flow instruments. Most recently, the RTA privately placed its $250 million series 2020A working cash notes with JP Morgan Bank, which mature in April 2022. The notes, which are considered subordinate obligations under the bond ordinance, feature a draw down revolving feature with ongoing, monthly repayment during the two-year term. The RTA recently fully repaid the $25 million it had drawn against the notes, and officials plan to enter into a new liquidity instrument to hedge against unexpected future fluctuations in cash flow.

RTA's overall creditworthiness and its liquidity is bolstered by $1.4 billion of CARES Act receipts and an additional $500 million supplemental CARES Act funding. RTA officials allocated nearly all the initial funding to CTA, Metra, and Pace, and retained $29 million for itself. Roughly half of its initial CARES Act receipts were allocated in fiscal 2020, and the remainder was carried over to 2021. The region is set to receive $1.5 billion of funding under the American Rescue Plan Act, to be shared by the RTA and another transit organization in northwest Indiana. RTA officials plan to continue disseminating federal stimulus funds to its service boards at a measured rate to guard against potential revenue fluctuations in the near term, which could pressure the service boards' budgets.

Revenue volatility: Low

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessment: macro and micro.

On a macro level, we consider sales and use tax revenue to have a low historical volatility assessment, based on total retail food and service sales data from the U.S. Census Bureau during the past two decades. Nationwide retail and food service sales have historically fluctuated moderately throughout severe economic downturns and price fluctuations, as sales of nonessential goods are relatively cyclical. However, we expect overall collections will remain relatively stable nationwide, given the relative inelasticity of demand for certain taxable goods and services. Given the strength of the region's revenue stream, we do not believe there are any micro-level characteristics of RTA's pledged revenue stream that strengthen or weaken our macro-level assessment of revenue volatility.

Obligor linkage: limited revenue sharing entity risk

In our view, the RTA is not exposed to significant revenue sharing risk from the state of Illinois. While the state has delayed PTF funds, which has prompted RTA officials to utilize short-term debt to manage its cash flows, we note that PTF funds are only one component of the revenue stream, and sales tax revenue alone can cover debt service. Sales tax revenue is collected by the state of Illinois, but it is not subject to appropriation.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of September 9, 2021)		
Illinois Regl Transp Auth sales tax		
Long Term Rating	AA/Stable	Outlook Revised
Illinois Regl Transp Auth sales tax (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised

Ratings Detail (As Of September 9, 2021) (cont.)		
Illinois Regl Transp Auth sales tax (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth sales tax (FGIC) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth sales tax (MBIA) (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth sales tax (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth Sales Tax (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Illinois Regl Transp Auth SALESTAX		
Long Term Rating	AA/Stable	Outlook Revised

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.