MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Regional Transportation Authority (IL) sales tax bonds to A1 from A2; outlook stable

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New York, July 08, 2021 -- Moody's Investors Service has upgraded the rating on the Regional Transportation Authority of Illinois' (RTA) general obligation bonds (which are backed primarily by regional sales tax revenue) to A1 from A2. The outlook has been revised to stable from negative. In addition, a short-term rating assigned to RTA's Series 2005B extendible reset securities (ERS) has been upgraded to P-1 from P-2.

RATINGS RATIONALE

The upgrade of RTA's credit rating incorporates substantial reductions in exposure to both state aid payment delays and the short-term borrowings that RTA resorted to as an offsetting measure. RTA's rating also is supported by ample coverage of maximum annual debt service from the pledged regional sales tax, which has rebounded after a decline caused by the coronavirus pandemic. Reliance on the regional sales tax collections rather than fare revenue has shielded RTA's credit from the effects of dramatic declines in transit ridership that accompanied the pandemic and that have persisted. The rating also factors in the large economic base on which the RTA's taxes are levied and the importance of mass transit to the greater Chicago area served by RTA's service boards. The rating encompasses financial pressures affecting the State of Illinois (Baa2, stable) and the City of Chicago (Ba1, negative).

The P-1 rating is supported by the timing provisions and management's capacity to eventually redeem the reset securities, which are both strong. Under the bond provisions, investors would hold the securities for a period of nine months after a failed remarketing, providing ample time for the authority to issue long-term bonds to cover the debt. Liquidity should be adequate, judging by the amount of debt outstanding and available liquidity exceeding the bonds' outstanding principal.

RATING OUTLOOK

The authority's stable outlook is consistent with the resilience of regional sales tax revenue pledged to the bonds and with expected strong coverage of debt service.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-Demonstrated capacity for additional state support, such as addition to pledged revenue

-Mitigation of pension funding pressure affecting the state and other related governments

-Improved bondholder protections, such as a more stringent additional bonds test

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-Substantial increase in the length of state aid payment delays, requiring increased short-term borrowing by the authority

-Weakening sales tax revenue performance that undermines debt service coverage

-Deteriorating liquidity position

-For the ERS rating: constrained market access

LEGAL SECURITY

The RTA bonds are payable primarily from RTA's revenue from regional sales taxes in the area served by RTA's transit system. The authority's 3,700-square-mile area includes the suburban "collar" counties as well as Cook County, which contains Chicago. As "general obligations" supported by RTA's full faith and credit, the bonds would also be paid from any other RTA funds in the event that the pledged regional sales tax revenue is insufficient. The regional sales taxes are collected by the State of Illinois' Department of Revenue.

USE OF PROCEEDS

Not applicable

PROFILE

The RTA, a political subdivision and municipal corporation of the state created in 1973, is responsible for the oversight, regional planning and funding of three transit agencies (or service boards) in the Chicago area, which is defined as Cook County and the five surrounding collar counties. It distributes regional sales tax revenue and state aid payments to the service boards pursuant to state law. The task of actually running transit systems falls to the service boards: the Chicago Transit Authority (CTA), the subway and bus operator in Chicago; Metra, which provides commuter rail service, and Pace, the provider of suburban bus service as well as Americans with Disabilities Act mandated para-transit. RTA requires the service boards to devise balanced budgets and two-year financial plans. RTA cannot use service boards' fares or other operating revenue.

METHODOLOGY

The principal methodology used in the long-term ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087. The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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