FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Regional Transportation Authority, IL's GOs at 'AA+'; Outlook Stable

Wed 23 Aug, 2023 - 4:11 PM ET

Fitch Ratings - Chicago - 23 Aug 2023: Fitch Ratings has affirmed the following obligations of the Regional Transportation Authority, IL (RTA):

--Various general obligation (GO) bonds and notes at 'AA+';

--$25.5 million GO variable rate notes (extendable reset securities) series 2005B at 'F1+.'

The Rating Outlook is Stable.

RATING ACTIONS

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

Regional Transportation Authority (IL) /General Obligation - Limited Tax - Dedicated Tax/1 ST	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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 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. 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:

--A pattern of revenue growth at a rate consistently above U.S. GDP.

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

--A significant and sustained erosion of the expected ample coverage of debt service by total pledged receipts, lowering the resilience of the structure relative to potential cyclicality.

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 in fiscal 2022, with sales tax and PTF revenue covering MADS by 11.6x. After declining 6% in 2020 due to the pandemic, pledged revenues grew 24% in fiscal 2021 yoy and nearly 9% in fiscal 2022. Fiscal 2023 sales tax revenue is trending 4.3% higher than fiscal 2022 levels through May (the latest available figures).

The PTF reduction that had been in place since 2017, was eliminated as of July 2021. This had reduced funding by around $18 million in 2020. After many years of backlogged payments from the state to the RTA, the authority received all state fiscal year 2023 (FYE June 30) funding from the state by the end of July. As a result, the RTA to has not had to issue working cash notes and fully eliminated its $150 million 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.

Revenue Growth Prospects Solid

Sales taxes comprise approximately three-quarters of pledged revenues. Underlying receipts of sales tax and PTF revenues combined are likely to experience relatively solid growth over time, above Fitch's long-term expectation for national inflation, supporting the 'aa' assessment for growth prospects. Pledged sales and sales tax-related PTF revenues have exhibited a 10-year CAGR of 4.4%. These gains have continued despite imposition by the state of a permanent 1.5% administrative fee on locally-imposed sales tax collections 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. Although recent revenue trends have been more in line with GDP, Fitch anticipates that future growth will moderate somewhat after from the pandemic revenue rebound and settle above inflation but below U.S. economic performance.

Ample Resilience Based on 2.5x Total Pledged ABT

In 2022, gross sales tax and PTF revenue coverage of MADS of $177.9 million was strong at 11.6x.

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). Under this scenario, fiscal 2022 available revenues provide a cushion relative to the ABT at 52x the FAST result. The coverage cushion is narrower but still ample using the largest historical revenue decline. Fiscal 2022 receipts provide a 11x cushion relative to the combined revenue stream's historical experience. The resilience cushion under both the FAST scenario and largest decline is robust and consistent with a 'aaa' assessment, assuming issuance to the ABT.

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.

FITCH RATINGS ANALYSTS

Ashlee Gabrysch
Director
Primary Rating Analyst
+1 312 368 3181
ashlee.gabrysch@fitchratings.com
Fitch Ratings, Inc.
One North Wacker Drive Chicago, IL 60606

Michael Rinaldi
Senior Director
Secondary Rating Analyst
+1 212 908 0833
michael.rinaldi@fitchratings.com

Eric Kim
Senior Director
Committee Chairperson
+1 212 908 0241
eric.kim@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Regional Transportation Authority (IL)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.