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Summary:

Rhode Island Turnpike and Bridge Authority; Toll Roads Bridges

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Credit Profile

Rhode Island Turnpike & Bridge Authority

Long Term Rating

A/Stable

Upgraded

Credit Highlights

- S&P Global Ratings raised its rating to 'A' from 'A-' on the Rhode Island Turnpike and Bridge Authority's (RITBA or the authority) toll revenue bonds outstanding.
- The outlook is stable.
- The upgrade reflects the toll road's consistent and demonstrated track record of resilient demand during different economic cycles.

Security

Securing the bonds is net revenue of the Newport Pell Bridge, the only one of four bridges under the authority's control that is tolled. A cash-funded debt service reserve fund provides additional liquidity to bondholders. We consider the bond provisions credit neutral.

As of March 2023, the authority had \$43 million of debt outstanding secured by toll revenues. All debt is fixed rate with no swaps, variable-rate debt, or direct-purchase debt outstanding. The authority has no near-term additional debt needs. Furthermore, our financial risk profile analysis excludes the authority's motor fuel tax revenue bonds, which are secured by motor fuel tax revenues.

Credit overview

The upgrade reflects our view of RITBA's demonstrated resilience and credit stability across various economic cycles, including a swift rebound in toll transactions following a modest and temporary decline in activity levels during the COVID-19 pandemic. In fiscal 2022, RITBA's toll transaction recapture rate was almost recovered to fiscal 2019 levels. Historical toll transactions before the pandemic were generally stable to increasing, averaging 1% growth annually between fiscal years 2010-2019. The rating captures our assessment of the authority's strong enterprise risk and financial risk profiles, which are unchanged.

Our enterprise risk profile assessment reflects the authority's adequate market position incorporating the geographic and revenue-generating concentration of a single tolled asset, the Newport Pell Bridge, although the asset has no significant competition and has maintained stable demand trends. Fiscal 2022 toll transactions and toll revenues were 10.5 million and \$23.8 million, respectively. Toll transactions were 4% below 2019 levels but toll revenues increased about 25.1% in fiscal 2022 compared with fiscal 2021, following toll rate increases effective Dec. 1, 2021, for

non-E-ZPass or bill by mail transactions (increase to \$3 from \$2 per axle) and violation fees. In its adopted budget, management estimates toll revenues of \$21.9 million for fiscal 2023 or a projected 8% decline compared with the previous fiscal year. We view the budget estimate to be conservative given fiscal 2023 year-to-date actual financial performance is trending favorably. Through Dec. 31, 2022, revenues were \$4.6 million or 39% above budget and expenses are about \$571,000 or 8% below budget. Therefore, we estimate financial metrics will be comparable with pre-pandemic levels.

Our financial risk profile assessment reflects debt service coverage (DSC; S&P Global Ratings-calculated) fluctuating at strong (1.25-3.0x) to very strong (3.0-4.75x) levels tempered by the bridge's single-asset nature, very strong debt and liabilities (5x-10x) supported by no near-term additional debt needs, and extremely strong overall liquidity position with \$42.9 million in reserves as of June 30, 2022, which equates to 1,338 days' cash on hand and 89% of debt. We estimate strong DSC (S&P Global Ratings-calculated) of about 2.5x tempered by the bridge's single-asset nature, very strong debt and liabilities capacity with a debt-to-EBIDA ratio of 5.3x, and improved extremely strong overall liquidity and financial flexibility as a result of increasing reserves and continued debt amortization that bolsters the liquidity-to-debt metric.

The authority's 10-year capital improvement plan (CIP) totals \$279.8 million through fiscal 2031 with three major capital projects including the Newport Pell Bridge rehabilitation (\$137 million), Mount Hope Bridge rehabilitation (\$65 million), and related improvements for transitioning to all-electronic tolling (\$17 million). There are no additional near-term debt needs to fund the CIP.

Key credit strengths, in our opinion, are the authority's:

- Stable and almost recovered toll transactions following transitory declines at the onset of the pandemic, with toll revenue performance aided by a toll rate increase effective Dec. 1, 2021;
- Financial performance that has trended favorably, with DSC (S&P Global-calculated) fluctuating at levels we consider strong (1.25-3.0x) to very strong (3.0x-4.75x) tempered by the bridge's single-asset nature. If DSC is sustained above 3.0x, we could improve our assessment;
- Strategic location, with very little competition from other bridges or alternative routes; and
- Modest CIP requiring no near-term additional debt needs.

Key credit weaknesses, in our view, are the authority's:

- Adequate market position incorporating the geographic and revenue-generating concentration of a single tolled asset, the Newport Pell Bridge;
- Four-bridge system but with only one bridge generating revenues, which we view as a narrow revenue stream; and
- Exposure to tourism from in-state and interstate traffic.

Environmental, social, and governance

We analyzed the authority's environmental, social, and governance risks and opportunities relative to its market position, management and governance, and financial performance, and determined that all are neutral in our credit rating analysis. The Newport Pell Bridge's location adjacent to Narragansett Bay and the northern Atlantic Ocean

exposes it to physical risks such as hurricanes and sea-level rise; however, these risks have not affected demand or financial metrics. As a result, we view environmental risk as neutral in our rating analysis.

Outlook

The stable outlook reflects our view that generally recovered and stable toll transactions will support the authority's strong financial risk profile.

Downside scenario

We could lower the rating within the two-year outlook period if traffic levels soften or the authority issues significant additional debt, pressuring financial metrics at levels inconsistent with the current rating.

Upside scenario

We could raise the rating during the two-year outlook period if the authority's DSC is sustained at very strong levels (3.0x-4.75x), resulting in an improved very strong financial risk profile.

Credit Opinion

The authority serves the State of Rhode Island with four bridges, one of which is tolled, and maintains Route 138 through Jamestown along with 10 smaller bridge structures. Located at strategic points throughout the state, the bridges provide access to Aquidneck Island and Newport, a regional tourist destination as well as home to the Newport Naval Station. The authority has operated and maintained the Mount Hope Bridge since 1964 and has operated and maintained the Claiborne Pell/Newport Bridge (a steel suspension bridge) since it opened to traffic on June 28, 1969, connecting Jamestown to Newport. The authority continues to operate and maintain both bridges.

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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