

THE BOND BUYER

Illinois tollway sets slate of new money and refunding deals

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The Illinois State Toll Highway Authority is readying a more than \$200 million refunding for sale this fall and has two new money deals totaling \$500 million in the pipeline as it moves into the ninth year of its 15-year, \$14 billion capital program.

The current refunding is expected to generate about \$60 million in net present value savings, said the tollway's chief financial officer, Michael Colsch. The bonds are secured by net tollway revenues that primarily come from toll collections, and the authority pledges to set rates at a level sufficient to repay debt.



Crews place concrete on the Central Tri-State Tollway in August as the Illinois State Toll Highway Authority works its way through a \$14 billion capital program. **Illinois State Toll Highway Authority**

Morgan Stanley and Bank of America Merrill Lynch are senior managers with Morgan Stanley running the books. Hilltop Securities Inc. is the financial advisor and Chapman and Cutler LLP is bond counsel. The deal could sell as soon as the last week of October.

The authority proposed a [tentative \\$1.54 billion 2020 budget](#) this month that in part relies on borrowing for its capital program. After a series of public hearings, the tollway board will cast a vote at its December meeting. The budget includes \$380 million for annual maintenance and operations on the 294-mile system.

The amount of new money bonds “is larger than the last few years but it’s not the largest” that the tollway has undertaken in a single year, Colsch said in an interview along with his debt manager William O’Connell. “It’s reflective of a sizable program next year.”

The new money will come in two sales: one in the first quarter of 2020 and the second late in the year.

The finance team is also looking at other borrowing options in the coming year including the use of a taxable structure to advance refund debt, but no deals are currently in the works.

The authority has also been whittling down its synthetic fixed-rate debt that stands at about \$720 million. The authority last December refunded \$500 million of debt, some for savings and some to trim floating-rate exposure and swaps in its \$6 billion debt portfolio.

“We look at the overall costs” and “if market conditions are favorable” so that the cost of paying off the swaps that carry a negative valuation results in just a minimal increase in overall costs the authority might act as a means to further lower its risk profile, Colsch said.

The tollway is moving into its ninth year of funding the Move Illinois program to upgrade and expand the system with the help of toll increases. About \$10 billion is for improvements and \$4 billion for expansion projects.

The original 2011 program authorized \$12 billion but the authority raised it to \$14 billion in 2017. The tollway has issued \$3.1 billion to fund the program with an additional \$2.4 billion planned through 2024.

“The Tollway is committed to delivering a balanced spending plan, prioritizing safety and customer service as we reinvest the tolls we collect back into improvements that support our roadway operations as well as the communities

we serve throughout the region,” the authority’s executive director, José Alvarez, said in a statement after release of the budget.

Gov. J.B. Pritzker tapped Alvarez and new board members to lead the agency after he took office early this year.

The budget projects a \$40 million increase in revenue over the current 2019 estimate. That’s due mostly to continuing increases in toll transactions along with a truck toll rate increase enacted by the board in 2008.

About \$1.5 billion of the authority’s revenue will come from toll collections and evasion recovery, \$30 million from investment income, and \$10 million from concessions and miscellaneous revenue. No toll increase is planned for passenger vehicles. The budget anticipates the authority will maintain a headcount of 1,462 employees, about six less than this year.

Planned spending includes \$328.7 million for systemwide roadway and bridge repairs and technology investments.

Big projects in line for funding include \$559.6 million to continue planning and construction for the new I-490 tollway and new interchanges connecting to the Jane Addams Memorial Tollway, Tri-State Tollway, the Illinois Route 390 Tollway, as well as providing direct access in and out of O’Hare International Airport as part of the Elgin O’Hare Western Access Project.

Another \$446.9 million will fund the continuing design and reconstruction of the Central Tri-State Tollway Project, and \$71.6 million is for construction at the I-294/I-57 Interchange.

Ahead of the coming deal, Moody’s Investors Service affirmed the authority’s A1 rating and stable outlook, [after downgrading](#) the authority one notch in late May, fallout from deepened scrutiny of revenue pledges after legal rulings in Puerto Rico’s Title III case.

The authority carries AA-minus ratings and stable outlooks from Fitch Ratings and S&P Global Ratings, which have not yet acted ahead of the new issuance.



Bridge construction on Interstate 294 in August as the Illinois State Toll Highway Authority works through a \$14 billion capital program. **Illinois State Toll Highway Authority**

In its new report, Moody's noted the tollway's state government linkage despite strong legal and statutory insulation. "The authority does not rely on state funding and its rating, which is five notches above the state of Illinois' Baa3/stable, acknowledges strong protections in the authorizing legislation, the master trust indenture, and the Illinois Constitution," Moody's said.

"However, in the event of serious fiscal distress and potential default by the state on its own bonds, risk remains that the authority could be negatively affected by emergency fiscal actions taken by the state in such an unprecedented scenario," it continued.

Another protection in place comes from voter approval in 2016 amending the constitution to put a lockbox on transportation-related revenues.

Colsch said the tollway's June transaction sold at rates the authority had anticipated and doesn't believe the downgrade had an impact.

A long 25-year bond with a 5% coupon landed at a 50 basis point spread to the Municipal Market Data's AAA benchmark in that new money sale, which did not offer shorter maturities, compared to a similar long bond in a late 2017 new money deal that landed at a 52 basis point spread.

The yield on the 10-year in the tollway's December refunding sale landed at 2.78%, a spread of 38 basis points. The upcoming sale will provide a comparison point as it will offer shorter maturities.

Debt service coverage remains strong — at 2.66 times in 2018 — and leverage and liquidity will stay in the same range.

The tollway recorded a record number of 1 billion transactions in 2018, up 1.1% from the prior year due mostly to commercial traffic as passenger traffic was down due to major construction projects.