

RatingsDirect®

Summary:

E-470 Public Highway Authority, Colorado; Toll Roads Bridges

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Credit Profile

E-470 Public Highway Authority		
<i>Long Term Rating</i>	A+/Stable	Upgraded
E-470 Public Highway Auth toll roads bridges (MBIA)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
E-470 Pub Hwy Auth GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
E-470 Pub Hwy Auth TOLLFAC		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on E-470 Public Highway Authority, Colo.'s senior revenue bonds outstanding to 'A+' from 'A'.
- The outlook is stable.
- The rating action reflects our view of E-470's improved financial risk profile given favorable financial trends that are supported by no additional debt needs and liquidity that we expect will remain robust, along with improving, maturing traffic activity.

Security

A first lien on the trust estate secures the bonds. Under the provisions of the amended and restated master bond resolution, pledged revenues include the toll road system's net revenues, governmental loans, and interest earnings. Management pays debt service on the revenue bonds from the trust estate after paying operating expenses and restoring any deficiency in the related debt service reserve account. E-470's debt outstanding totaled approximately \$1.3 billion as of December 2022.

Credit overview

The rating reflects our view of E-470's demonstrated resilience and credit stability across various economic cycles, including a rebound in toll transactions following a temporary decline in activity during the COVID-19 pandemic, resulting in our improved view of the authority's financial risk profile to be very strong. Toll transactions for calendar 2022 were down approximately 5% of 2019 pre-pandemic levels and we expect continued improvement over time resulting from serving a growing metropolitan statistical area (MSA). Recent transaction trends are meeting or exceeding pre-pandemic levels with March 2023 9% higher than March 2019. The rating further reflects our opinion of the authority's strong enterprise risk profile. Our enterprise risk profile assessment reflects our opinion that demand

will be supported and will increase over time as the Denver metropolitan area expands, offset somewhat by the competition the toll road faces from free alternative routes. The authority's board lowered toll rates in fiscal 2022 and froze them in fiscal 2023, which we view as credit neutral, given its internal financial goals, including debt service coverage (DSC) of above 2x and maintaining an unrestricted fund balance above \$200 million, are expected to be met.

Our financial risk profile assessment reflects our expectation that E-470 will maintain DSC (S&P Global Ratings-calculated) near or above 2x; debt to EBIDA between 5x-10x with no near-term additional debt needs; and very strong liquidity with more than 800 days' cash on hand that we expect will continue. As of March 31, 2023, the authority reported \$412.4 million in unrestricted cash and investments, equal to approximately 2,400 days' cash. However, the five-year \$699 million capital budget program will be funded with cash on hand and ongoing net revenues. Management forecasts the unrestricted fund balance will drop from the current very high levels to approximately \$240 million in 2024, before any potential uses for debt call opportunities, which we still view as very strong liquidity.

Key credit strengths, in our opinion, are the E-470's:

- Strong market position, as demonstrated by the authority's relatively good pricing power as well as the road's generally favorable historical traffic trends, which are a function, in our view, of the expanding service area economy;
- Very strong management and governance, reflecting the authority's conservative approach to financial and capital planning, history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently, and a very capable staff that has considerable experience operating a regional tolling agency;
- DSC and debt to EBIDA that we expect will be maintained at levels we consider strong (near 2x) and very strong (5x-10x), respectively; and
- Lack of new-money borrowing needs.

These credit strengths, in our view, are somewhat offset by:

- Potentially lower-than-forecast traffic levels due to less commuting or travel for business or other purposes because of increased adoption of remote work and technology; and
- An expected material drawdown of cash to fund a portion of the capital improvement plan, although we expect unrestricted reserve balances will remain robust with a policy to maintain reserves above \$200 million.

Environmental, social, and governance

We analyzed the authority's environmental, social, and governance risks relative to its market position, management and governance, and financial performance and determined that all are neutral in our credit rating analysis. However, social capital opportunities and favorable demographic trends that underscore economic growth within the Denver MSA can spur traffic demand for the system and, in our opinion, provide long-term credit stability.

Outlook

The stable outlook reflects our expectation that the authority will meet forecast traffic and revenue levels, allowing it to maintain financial metrics (S&P Global Ratings-calculated) consistent with a very strong financial risk profile.

Downside scenario

Although unlikely, we could lower the rating if the authority were to consistently underperform projected revenue forecasts, pressuring DSC (S&P Global Ratings-calculated) and debt to EBIDA, and resulting in a weaker financial risk profile.

Upside scenario

We could raise the rating during the two-year outlook period if we believe that traffic demand has materially improved, resulting in a stronger market position assessment.

Credit Opinion

E-470 is a 47-mile beltway that runs along the eastern perimeter of the Denver metropolitan area, from State Highway C-470 at Interstate 25 (I-25) in Douglas County, south of Denver, to I-25 on the north end of the metropolitan area, just south of 160th Avenue. Segment I opened in June 1991, and toll collection began July 15 that year. Portions of segments II and III opened in July 1998 and tolling began in October. The remaining portions of segments II and III opened in May 1999, linking the operational northern and southern portions. The last section of E-470, from U.S. 85 to I-25 north, opened Jan. 3, 2003.

S&P Global Ratings believes that the U.S. economy will fall into a shallow recession in 2023, although increased credit tightening stemming from recent events in the banking sector has elevated the likelihood of a hard landing. Supply-chain disruptions continue in certain sectors and, although inflation likely peaked in third-quarter 2022 as prices for goods moderated, prices for services excluding housing remain elevated. Our U.S. GDP growth forecast is 0.7% for 2023 and 1.2% for 2024. We also now expect U.S. GDP will decline by 0.3 percentage point from its peak in first-quarter 2023 to its third-quarter trough. If correct, this recession will beat the 2001 recession as the softest since 1960. We expect the unemployment rate, at 3.6% in February 2023 and just above its pre-pandemic level, will rise in 2023 and peak at 5.4% in second-quarter 2024 before declining in late 2025. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of the Federal Reserve's continued aggressive policy stance to keep interest rates higher until inflation declines toward its 2% target. We believe the federal funds rate will peak at 5.00% to 5.15% by May 2023 with the first interest rate cut in mid-2024. See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.

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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