

Moody's revises New York State Thruway Authority's outlook to positive from stable; affirms all ratings and assigns A1 to proposed General Revenue Bonds, Series P

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Rating Action | 6 min read | 04 Jan 2024 | Moody's Investors Service

New York, January 04, 2024 -- Moody's Investors Service has revised New York State Thruway Authority's outlook to positive from stable, has affirmed the A1 rating of the outstanding general revenue bonds encompassing approximately \$3.3 billion and the A2 rating of the outstanding general revenue junior indebtedness obligations encompassing approximately \$2.5 billion. At the same time, Moody's has assigned an A1 rating to NYSTA's proposed General Revenue Bonds, Series P for approximately \$1.1 billion.

The outlook revision to positive is driven by the recently approved multi-year toll increase for the 2024-2027 period, which will support the authority's financial strength and extensive capital plan. The ratings affirmation and ratings assignment reflect the current uncertainty on the authority's leverage profile given the ongoing legal dispute with the constructor of the Governor Mario M. Cuomo Bridge.

RATINGS RATIONALE

The revision of New York State Thruway Authority's ("NYSTA" or "the authority") outlook to positive from stable reflects the recently approved multi-year toll increase for the 2024-2027 period, which will increase toll revenue on a compound annual growth rate of about 6%. While the toll increases are not linked to any formulaic indexation, the new rates will support the authority's financial strength and extensive capital plan. Moody's expects total Debt Service Coverage Ratios as measured by Moody's to average around 1.65x over the next five years, in line with similarly rated peers.

NYSTA's debt service needs and ongoing large capital improvement plan to maintain its assets in a state of good repair requires steady revenue growth to ensure financial metrics are maintained in line with its targets. Therefore, the multi-year toll increases enhance the authority's credit profile versus previous years when increases were not implemented in time to keep financial metrics higher. Also, having toll increases approved until 2027 mitigates risks related to potential political interference, which is relevant because the authority's seven-member board is currently operating with only five members, three of which are serving under carry over terms.

The positive outlook also recognizes the current capital investment plan (CIP) of approximately \$2.4 billion for the 2024-2028 period. Now that the construction of the Governor Mario M. Cuomo Bridge has been completed on time and within budget, the updated CIP only includes standard maintenance works that do not pose significant complexity or cost overrun risk. Approximately 53% of the updated CIP will be debt financed, which will result in a ratio of adjusted debt to operating revenue of about 6.1x in average over the next five years. While the anticipated leverage is relatively high, it is in line with similarly rated peers of comparable size and it reflects the extensive capital needs of large-scale assets.

At the same time, the ratings affirmation acknowledges that the authority is currently facing a dispute process with Tappan Zee Constructors, LLC (TZC), the contractor of the Governor Mario M. Cuomo Bridge, who alleges that it is owed approximately \$1.3 billion in excess of the approved contract value and anticipated contract change orders. An adverse outcome of the dispute could result in additional debt beyond the amounts planned for the current financing plan. The ratings affirmation recognizes that the authority's long term debt service profile has room to incorporate additional debt, but also reflects the limited visibility on the authority's leverage profile until there is more certainty on the outcome of the dispute.

RATING OUTLOOK

The positive outlook is based on Moody's expectation that the authority will continue to sufficiently adjust its toll rates and prudently execute its capital plan while maintaining leverage levels in line with current expectations, resulting in Moody's calculated DSCRs for all debt service of at least 1.5x and Moody's calculated adjusted debt to operating revenue below 7.5x on a sustained basis.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Limited impact of the Governor Mario M. Cuomo Bridge dispute on the authority's leverage profile.
- Moody's net revenue DSCRs consistently exceed 2.0x for senior bonds and 1.5x for all debt service.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional debt issuances or revenue declines that lead to sustained Moody's net revenue DSCR below 1.55x for senior bonds and 1.35x for all debt service.
- Consistently higher Moody's adjusted debt to operating revenue ratio exceeding 7.5x
- Political interference that leads to meaningful changes in the current financial plan or failure to implement planned toll increases necessary to produce projected debt service coverage levels or both.

LEGAL SECURITY

Bonds issued under the bond resolution, including the Series P Bonds, are secured as to the payment of principal, premium, if any, and interest thereon by a pledge of the revenues and certain funds and accounts established under the bond resolution, subject to the application thereof for the purposes and on the terms and conditions provided in the bond resolution.

The Series P Bonds are secured by a Senior Debt Service Reserve Fund in an amount equal to the maximum amount of aggregate debt service for any 12-month period on all outstanding bonds secured by the Senior Debt Service Reserve Fund, a substantial portion of which is currently funded by a reserve credit facility as permitted by the bond resolution. The bond resolution also provides that operating expenses of facilities will be funded from revenues prior to the provision for accrued debt service on the bonds.

USE OF PROCEEDS

The Series P Bonds are being issued to (i) fund a portion of the authority's multi-year capital program, (ii) make a deposit to the Senior Debt Service Reserve Fund, (iii) fund capitalized interest on the Series P Bonds, (iv) refund certain outstanding bonds, (v) purchase, through a voluntary tender process, certain outstanding bonds, and (vi) pay the costs of issuance of the Series P Bonds.

PROFILE

The New York State Thruway Authority is a public corporation created in 1950 by the New York State Legislature to finance, construct, operate and maintain the tolled New York State Thruway System, subject to statutory restrictions on certain sections of the system, including the Cross-Westchester Expressway. In addition, pursuant to New York State law in 1992 and other authorizations, the authority can finance and undertake specific economic development transportation projects in the state and may undertake certain financing on behalf of the state for transportation purposes.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in May 2023 and available at <https://ratings.moody.com/rmc-documents/403120>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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