



Fitch Rates Delaware River Joint Toll Bridge Commission Bonds 'A+'; Outlook Stable

Fitch Ratings-New York-03 February 2017: Fitch Ratings has assigned an 'A+' rating to \$438 million of Bridge System Revenue bonds series 2017, issued by the Delaware River Joint Toll Bridge Commission (DRJTBC, or the Commission). The series 2017 bonds are entirely new-money debt, secured by net revenues of the Commission's toll bridge system. The Rating Outlook is Stable.

The Commission also has outstanding parity debt of \$299 million not rated by Fitch.

KEY RATING DRIVERS

Summary: The 'A+' rating reflects the Commission system's demonstrated mature and stable traffic profile and significant rate-making flexibility. Beyond this issuance, there is no additional debt planned, leading to average leverage of 6.3x under a rating case. The resultant leverage peaks at 9.3x under the forecast period to 2026, still under the 'A' category's indicative guidance of up to 10x for large networks and major urban bridge systems with low traffic growth dependency.

Mature System with Large Geographic Cover (Revenue Risk - Volume: Stronger):

The Delaware River Joint Toll Bridge Commission consists of a 20-bridge network spanning a 140-mile north-to-south area between Milford PA and Trenton NJ. Thirteen bridges are currently free and seven are tolled. (The Scudder Falls Bridge[SFB], which will be expanded and upgraded with this issuance, will become a toll bridge after completing the first phase of the project in 2019.) The free bridges are not considered reasonable alternatives for truckers and everyday commuters. The CAGR on all bridges and traffic types collectively between 2004 to 2015, was 0.7%; this includes a 0.7%

CAGR for passenger vehicles and 0.6% for commercial.

Ample Rate-Making Flexibility (Revenue Risk - Price: Stronger):

The last across-the-board toll increase took place in 2011, when passenger tolls increased \$0.25 to \$1.00. As such, toll rates remain very competitive compared to Fitch's rated portfolio. Demand has proven to be relatively inelastic to such increases, which resulted in transactions declining only 0.4% in 2012 (the first full year following the toll increase). Moreover, the I-78 Bridge, which constitutes nearly 30% of all toll-bridge transactions, saw vehicles up over 3% in 2012. The Commission may adjust toll rates independently, although it must do so by having at least three New Jersey commissioners and three Pennsylvania commissioners (of five each) vote accordingly, as with any action.

Detailed Capital Plan, but Additional Leverage (Infrastructure Development & Renewal: Midrange):

The Scudder Falls Bridge is the Commission's centerpiece on which the capital plan is focused. Total spending for the project is estimated at \$512 million, with \$407 million to be paid for with this issuance. Remaining pay-go spending through 2026 totals \$332 million for state-of-good repair projects on existing bridges. Leverage following issuance will jump from 1.2x in 2016 (unaudited, fiscal year ends Dec. 31) to 7.6x in 2017.

Fully Amortizing Debt (Debt Structure: Stronger):

While DRJTBC does have two swaps outstanding that synthetically fixes its 15% of variable-rate pro-forma debt, all debt is fully amortizing and essentially has a level profile once Scudder Falls Bridge becomes tolled. In 2020, debt service requirements will have peaked at \$48 million, trending between \$47 million and \$48 million to 2037. At that time, debt service takes a step down to \$39 million where it remains while Series 2017 is the only debt left outstanding until 2047 maturity. There are no additional debt plans beyond this issuance.

Financial Metrics:

The Commission has historically demonstrated healthy debt service coverage, helped in part by its policy of maintaining DSCR at at least 1.5x. Between 2011 and 2016, the lowest it reached was 1.83x, which occurred in 2011, the last year tolls were increased. DSCR has increased every year since then, reaching 2.56x in 2016 (unaudited, fiscal year ends Dec. 31).

Under a Fitch rating case that excludes toll increases (the revenue growth assumptions that are more fully described under "Fitch Cases" below), DSCR from 2016 - 2026 averages 1.7x; however as the last five years of the forecast would result in DSCR below 1.5x, an alternative case with a toll increase (12% in 2020 on all bridges including Scudder Falls, in order to meet policies) bumps DSCR to no lower than 1.6x during the forecast period.

PEER GROUP

Given the north-to-south geographical area that the commission covers (140 miles), the system is considered to have characteristics of a monopolistic large network. As such, peers include Bay Area Toll Authority (AA, ROS) and Triborough Bridge & Tunnel Authority ('AA-'/'A+'/'Stable Outlook). While the commission's debt outstanding even following new 2017 issuance is less than 10% of each comparable issuer, its rating case leverage in 2020 (7.2x) is lower than BATA's figure (11.6x) and similar to TBTA's 7.0x based on total debt. Further, MADS coverage based on 2015 revenues (last full audit, fiscal year ends Dec. 31) is 1.44x for DRJTBC, sitting comfortably between BATA's 1.3x and TBTA's 1.64x.

RATING SENSITIVITIES

Negative: A downgrade would likely follow should the commission operate for a sustained period near or below its 1.5x debt service coverage ratio policy.

Positive: An upgrade would likely follow should the Commission operate sustainably below leverage of 5x.

TRANSACTION SUMMARY

Bonds are being issued to fund about 80% of the Scudder Falls Bridge project,

which involves replacing and widening the existing bridge, improving approach roadways and interchanges, and converting the bridge from a free facility to an All Electronic Toll facility. Along with the existing debt outstanding, bonds will be repaid by net toll revenues of the system, which includes 20 bridges, seven of which are currently tolled (plus Scudder Falls Bridge).

Performance

The last full toll increase was in 2011. In that year, DSCR was 1.83x, which was the only year in the last six years that DSCR was below 2x. Leverage over the period was low and trended down, from 4.4x in 2011 to 1.2x in 2016 (unaudited) as the Commission has built cash and prepared to fund the Scudder Falls Bridge project.

Fitch Cases

The economic shock of the great recession was instituted in Fitch's rating case. While SFB opens midyear 2019, the recession is incorporated to occur in 2020, the first full year of SFB operations. As such, 2020 and 2021 become transactional-percentage mirrors of what occurred in 2008 and 2009 on a bridge by bridge basis. From 2022 to 2026, the seven existing tolled bridges individually grow between -1% and +1%, based roughly on transactional performance during 2004 - 2015 period. Additionally, new SFB revenues were decreased by 3% in 2020 compared to base case, and another 3% in 2021, thereafter returning to 1.5% annual growth. Opex was reduced to 4% in 2020 and 2021, thereafter following the base case percentages growth, resulting in a 4.5% overall OpEx CAGR from 2016 to 2026. Under this case, average DSCR resulted in 1.66x and leverage of 7.5.

As a corollary to the rating case, the Commission has two key policies that govern toll increases: 1) DSCR must be $> 1.5x$ and 2) cash must be maintained at greater of \$80mm or 15% of debt outstanding. The rating case, however, results in policy violations (minimum DSCR of 1.3x), to be resolved through a toll increase of at least 12%, assuming no loss of traffic, in order to maintain its policies through 2026.

A breakeven analysis found that toll revenues would have to increase at 1.3%

annually against 4.25% operating expense growth through 2047 in order to breakeven, given existing cash and reserves available for debt service. The operating expense growth figure is below the projected 10-year CAGR in the base case (4.7%).

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

(<https://www.fitchratings.com/site/re/882594>)

Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016)

(<https://www.fitchratings.com/site/re/886038>)

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