Fitch Affirms Rhode Island Turnpike & Bridge Authority's $71.4MM Revs at 'A'

Ratings
02 May 2011 3:12 PM (EDT)

Fitch Ratings-New York-02 May 2011: Fitch Ratings has affirmed the 'A' rating on approximately $71.4 million in outstanding Rhode Island Turnpike & Bridge Authority revenue bonds. The Rating Outlook is Stable.

Rating Rationale:
--Monopoly position providing a critical key transportation link for commercial and passenger traffic in the coastal Rhode Island area as evidenced by a stable demand profile;
--Relatively low toll rates provide significant economic ratemaking flexibility;
--Strong debt service coverage in excess of 2.0 times (x) debt service historically and relatively moderate leverage of about 7.5x;
--Necessity for toll increases over time to meet essential capital rehabilitation needs that have been long deferred on the Pell Bridge and the untolled Mt. Hope Bridge, combined with significant life cycle maintenance and rehabilitation costs anticipated in the near future;
--Limited surplus revenue after capital commitments constrains financial flexibility for unanticipated developments and legal flexibility to use excess revenue to finance non-system projects.

Key Rating Drivers:
--Continued demonstration of willingness to raise tolls to achieve debt service coverage levels of at least 1.5x;
--Management of lifecycle capital costs and continued focus containing operation and maintenance costs;
--Impact of high fuel prices and/or limited economic growth on the long-term outlook for traffic and revenue growth.

Security:
The bonds are secured by the net revenues derived by the authority from operating the Pell and Mount Hope bridges, any future additions permitted by the indenture and by a lien on all funds and accounts created under the Indenture.

Credit Summary:
Since the completion of E-ZPass installation, the authority has steadily increased E-ZPass users through a number of incentives to increase the penetration rate. The establishment of a customer service center, the initial sale of transponders below cost and the development of significant resident discount programs helped increase penetration rates to about 78% of transactions as at the end of fiscal year 2010. The implementation costs led to a jump in operating expenses of nearly 70% in fiscal years 2009 when operating expenses increased to $8.22 million. For fiscal year 2010 expenses increased another 3% to $8.48 million. Certain upfront costs are expected to phase out and management expects operating expenses to fall in fiscal year 2011 to the budgeted amount of approximately $6.56 million. Performance for fiscal year to February 2011 is on track to meeting this goal.

Traffic and revenue performance remained resilient in fiscal year 2010, with traffic relatively flat and revenues increasing by 37.2% due to the implementation of toll increases in September 2009. Cash and non-resident E-ZPass toll rates increased to $4 from $2 and $1.75 respectively and discount programs for Rhode Island E-ZPass users effectively kept rates at the same or slightly lower levels. Efforts to challenge the constitutionality of the toll schedule based on the commerce clause failed with a court ruling on April 4, 2011 in favor of the authority.

The implementation of the first five years (fiscal years 2010 through 2014) of the authority's biannual 10-year renewal and replacement plan which prioritizes a number of needed capital maintenance projects to maintain the bridges is progressing. The 2010 inspection results listed the bridges to be in satisfactory condition and made a number of recommendations that are being addressed in the updated 2011 renewal and replacement plan. Funding the approved portion of the plan requires additional debt estimated at about $59 million, which is expected to be issued in 2012. Fitch projections take into account this additional funding need and based on expected future tolls increases is of the opinion that the authority will be able to satisfy its obligations at levels consistent with the 'A' rating. While tolls has only been raised once in the authority's history in 2009, management is committed to reviewing the toll schedule and implementing necessary toll increases sufficient to satisfy its debt service obligation as well as generate excess cashflow to fund part of its capital program. Management has indicated that increases in resident and non-resident tolls will likely be needed every three years.

Debt service coverage ratio (DSCR) as calculated by Fitch was 2.9x in fiscal year 2010. DSCR is projected to drop to 1.6x in fiscal year 2011 due to the increase in debt service payment obligations to about $6 million from about $3.2 million in fiscal year 2010. No toll increase in 2013 could lead to weaker financial metrics and reduce credit quality.

Contact:
Primary Analyst
Reuel Andrews
Director
+1-212-908-9136
Fitch, Inc., 33 Whitehall Street, New York, NY 10004

Secondary Analyst
Michael Murad
Associate Director
+1-212-908-0757

Committee Chairperson
Michael McDermott
Managing Director
+1-212-908-0605

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance,' (Aug. 16, 2010);
--'Rating Criteria for Rating Criteria for Toll Roads, Bridges, and Tunnels,' (Aug. 10, 2010).

Applicable Criteria and Related Research:
Rating Criteria for Infrastructure and Project Finance
Rating Criteria for Toll Roads, Bridges, and Tunnels