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Summary:

Rhode Island Turnpike And Bridge Authority; Toll Roads Bridges

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Credit Profile		
Rhode Island Turnpike & Bridge Authority		
Long Term Rating	A-/Stable	Affirmed
Rhode Island Tpk & Br Auth taxable rfdg rev bnds ser 2003A dtd 07/31/2003 due 12/01/2003-2017		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' long-term rating, with a stable outlook, on Rhode Island Turnpike and Bridge Authority's (RITBA) series 2003A taxable refunding revenue bonds and 2010A revenue bonds.

Securing the bonds are net revenues of RITBA's system, limited to one revenue-producing facility, known as the Claiborne Pell Bridge or Newport Bridge, and the non-tolled Mount Hope Bridge. A debt service reserve account funded to IRS limit also secures the bonds.

The rating reflects our view of the following credit strengths:

- Newport Bridge's good business position, resulting from limited alternatives in providing a convenient route to commuters and out-of-state visitors;
- The bridge's generally stable annual traffic levels; and
- The authority's historically strong financial margins.

Somewhat offsetting credit weaknesses, in our opinion, include:

- A pledged narrow revenue stream from a single tolled asset that has seasonal fluctuations in traffic patterns and serves a regional economy with fairly high unemployment rates;
- The likelihood of lower financial margins; and
- Significant additional debt needs to fund critical long-term maintenance requirements.

As of July 2011, the authority had approximately $69 million of revenue bonds outstanding. It currently has no swaps, variable-rate debt, or Build America Bonds outstanding.

The authority operates a two-bridge system, consisting of the Newport and Mount Hope bridges. Both provide access to Aquidneck Island and the community of Newport. The Newport Bridge, opened in June 1969, is an 11,248-foot-long suspension bridge that carries four lanes of vehicular traffic on Route 138 over the East Passage of Narragansett Bay, connecting Jamestown on Conanicut Island and Newport on Aquidneck Island. Tolls are collected on traffic in both directions. The Mt. Hope Bridge is a 4,858-foot-long, two-lane suspension bridge that opened in 1929 and connects Bristol and Portsmouth. It became toll-free in 1998.

The Newport Bridge, in our opinion, has a good business position given little competition from competing facilities, its location along a key commuter route, and serving less frequent out-of-state visitors who are typically less sensitive to higher tolls. The bridge offers the quickest route compared with toll-free alternative crossings for travelers from either side of the facility and points west of Jamestown and Newport. The Newport Bridge, the only toll facility in Rhode Island, is one of three bridges providing access to Aquidneck Island. The others are the toll-free Mt. Hope and Sakonnet River Bridges.

The state-owned and operated Sakonnet River Bridge is a competitive route to the Mt. Hope Bridge connecting Portsmouth with Tiverton and the greater Falls River, Mass. region. A new bridge is under construction adjacent to the existing structure. The new bridge is expected to be complete by the middle of 2012. The new bridge will have two 12-foot travel lanes in each direction, as well as a bicycle and pedestrian path. The current Sakonnet River Bridge has an 18-ton weight limit, requiring trucks to use the alternate route through Bristol and across the Mt. Hope Bridge. The new bridge will have no weight limitations, which will allow trucks to revert to previous travel patterns, which favored the Sakonnet Bridge over the Mt. Hope Bridge. There have been discussions of the Rhode Island Department of Transportation (DOT) transferring the Sakonnet River Bridge over to the authority to operate and maintain. We understand, however, that the authority will not approve the transfer unless it has the ability to toll the bridge to the point of self-sufficiency. Discussions are ongoing between the authority and the state DOT.

In our view, the Newport Bridge has exhibited fairly stable demand characteristics historically. The bridge's annual traffic level has been fairly consistent, hovering near 10 million from fiscals 2001-2010, despite some seasonality and traffic levels declining by 4.3% from fiscals 2005-2010 because of the nationwide recession, very weak regional economic conditions, high unemployment, and a September 2009 toll increase. Traffic is expected to remain constant, totaling nearly 10 million based on unaudited fiscal 2011 results. A number of socioeconomic factors affect Newport Bridge traffic, including population and employment in regional military, government, education, and service sectors. The Newport Naval Station on Aquidneck Island is supported by a number of defense contracting firms and other private sector concerns. Traffic is also subject to heavy seasonal fluctuations given Newport's status as a tourist destination, with peak summer months at 122% of the monthly average and winter months at 90%.

Estimated traffic figures for fiscal 2011 showed a slight improvement over the previous year, up by 0.2%, after experiencing flat or declining traffic levels from fiscals 2006-2010. Fiscal 2009 showed the largest decline in traffic, at 2.3%. RITBA's traffic consultant attributes the weakening traffic levels to high gas prices, the recession, and other factors that similarly affected national trends in vehicle-miles traveled (VMT) in fiscal 2009. Toll revenue declines mirrored those of transactions until the December 2008 implementation of an electronic toll collection system (EZ-Pass) and the discontinuation of heavily discounted tokens in January 2009. The transition to EZ-Pass changed toll rates for those customers without a Rhode Island-issued transponder or failing to meet the frequency thresholds under the authority's newly created discounted commuter program. However, toll revenues increased by 37% to $17.2 million in fiscal 2010 owing to the September 2009 toll increase and fairly flat traffic levels. As a result, debt service coverage (DSC) improved to a strong 3.3x from 2.0x in fiscals 2009-2010.

The authority has historically maintained what we consider strong financial margins. Annual DSC has ranged from about 2.0x to 3.3x from fiscals 2006-2010. DSC is expected to remain strong over the near term, at 2.7x and 2.9x for fiscals 2011 and 2012, respectively, based on unaudited (2011) and budgeted (2012) results.

However, we expect the authority's financial margins will erode gradually as a result of the authority's future borrowing needs. Projected DSC, despite regularly scheduled toll increases, declines to about 1.5x from fiscals 2014-2021 before it starts to gradually improve. In our opinion, this lower DSC level with the additional debt is consistent with the current rating, despite the single-asset nature of the security, given the facility's fairly stable demand characteristics and the authority's plans to increase tolls. Under the tolling case gross revenue is projected to increase to about $24 million in 2016 from $18 million in 2012, reflecting an average annual growth rate of 7%, assuming sluggish but reasonable traffic growth with a compound annual growth rate of only 0.4%, regularly scheduled 10% toll increases every three years, strict expense controls, and escalating debt service requirements. These projections do not assume that the Sakonnet River Bridge becomes part of the authority. We expect management to implement toll increases to finance critical capital maintenance, while maintaining DSC close to forecast.

We expect the next toll increase will occur on July 1, 2012. We understand management will discuss the magnitude of the toll increase in December. The class action civil lawsuit filed in May 2009, in which RIBTA was named as a defendant in challenging the tolling structure that charges nonresidents a higher toll, has been ruled in the favor of the authority as of April 2011. The decision will not be appealed per a prior agreement.

The rate for a Rhode Island resident with a Rhode Island transponder is 83 cents, or $5.46 for 6 trips taken within 30 days for commuters that are out-of-state residents with a Rhode Island transponder. An unlimited 30-day plan for Rhode Island residents is available for $40. The rate for out-of-state E-Z Pass transponders is $4.

The authority has what we consider significant additional debt needs to fund critical long-term maintenance requirements. It has embarked on a board-approved, $242-million, 10-year renewal and replacement program to address the long-term maintenance requirements on its bridge system to maintain their satisfactory condition. The bulk of the capital plan is allocated to high-priority projects. Steel repairs and painting on both bridges, as well as deck repair on the Newport Bridge, are the biggest projects that need to be addressed. Approximately 80% of projects costs are allocated to the Newport Bridge. Approximately $182 million of capital expenditures are programmed in the first five years of the 10-year plan. Funding the program will cause a significant increase in debt, with a planned $55 million parity debt issue in 2012 and a combined $94 million of additional parity debt from future borrowings in 2015, 2016, and 2017.

The authority's unrestricted cash position as of fiscal year-end 2010 (June 30) is what we consider weak, with 138 days' unrestricted cash on hand to fund its operating expenditures and 179 days based on an unaudited unrestricted cash balance of approximately $4.3 million as of June 30, 2011. We consider the authority's liquidity weak given the revenues securing the bonds are tied to a single revenue-generating asset as opposed to a system of revenue-generating assets. This, however, is mitigated by the authority's relatively strong DSC levels historically and maintenance of business interruption insurance for the Newport and Jamestown bridges. We expect the authority to maintain cash balance near these levels as its issues debt to address required long-term maintenance requirements.

Outlook

The stable outlook reflects our view of RITBA's current financing plan, toll structure, and projected traffic and revenue performance. Significant cost increases or deviations from expected demand levels, lower revenues, or higher operating expenses would constitute cause for rating concern. We do not expect to raise the rating over the next two years given the authority's significant additional debt needs.

Related Criteria And Research

USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007

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