

MOODY'S

RATINGS

Rating Action: Moody's assigns Aa1 to North Carolina Turnpike Authority's Monroe Expressway System 2024 appropriation bonds; outlook stable

25 Mar 2024

New York, March 25, 2024 -- Moody's Ratings has assigned a Aa1 rating to the North Carolina Turnpike Authority's proposed \$180.1 million Monroe Expressway System State Appropriation Revenue Refunding Bonds, Series 2024. The rating is based on the appropriation pledge of the State of North Carolina (Aaa stable), which had approximately \$7.5 billion of net tax-supported debt outstanding as of 2022. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the turnpike authority's Monroe Expressway System appropriation bonds is based on the State of North Carolina's commitment to annually transfer \$24 million from its Highway Trust Fund to the authority designated for the system, subject to appropriation. The rating on these bonds is 1 notch lower than the state's to account for this appropriation risk. This pledge is strong compared to many other appropriation structures; state law creates a continuing appropriation of the funds, and the state legislature would have to actively reverse the appropriation in order for funds to be unavailable. Furthermore, the appropriations are made out of a vast pool of transportation revenues totaling nearly \$1.9 billion annually, which include sales taxes and a tax on vehicle sales. Total coverage by Highway Trust Fund revenues of all debt service and statutory commitments (a very conservative way to evaluate coverage, since certain statutory commitments are not ongoing) was approximately 8.7x last year.

The State of North Carolina's Aaa issuer rating is supported by a diverse economy, strong governance, healthy reserves, and a debt and pension burden that is among the lowest of any state.

RATING OUTLOOK

The stable outlook on the Monroe Expressway System appropriation bonds mirrors

the stable outlook on the state. The state's stable outlook reflects conservative fiscal management and budgeting practices, coupled with a strong economy.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Removal of appropriation requirement for debt service

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Downgrade of the State of North Carolina
- Dramatic decline in highway trust fund revenues, putting pressure on the legislature's wherewithal to appropriate funds for these bonds

LEGAL SECURITY

The Monroe Expressway System appropriation bonds are payable from an annual \$24 million appropriation by the state legislature out of the state's highway trust fund.

USE OF PROCEEDS

Proceeds of the 2024 bonds will be used to refund the authority's 2010 bonds for annual debt service savings.

PROFILE

The North Carolina Turnpike Authority, which is the issuer of these bonds, is part of the North Carolina Department of Transportation and was created to build and maintain certain highway projects, including the Monroe Expressway System. The bonds are payable from appropriations by the State of North Carolina, which we consider the obligor for the bonds. North Carolina is the ninth-largest state by population, and the 10th-largest by gross domestic product.

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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