

Fitch Affirms South Jersey Trans Auth at 'BBB+/BBB-'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings affirms the 'BBB+' rating on the South Jersey Transportation Authority's (the authority) \$438.9 million of transportation system revenue bonds and 'BBB-' rating on the \$16.1 million of subordinate transportation system revenue bonds outstanding. The Rating Outlook is Stable.

The affirmation reflects the authority's adequate debt service coverage ratios (DSCRs) and the expressway's economic rate-making ability to maintain current coverage levels.

KEY RATING DRIVERS:

ASSET WITH LONG HISTORY, SUBJECT TO INDUSTRY RISK: The authority's anchor asset, the Atlantic City Expressway (ACE), has a long operating history. However, the expressway is exposed to leisure-oriented traffic which is dependent on the health of the Atlantic City gaming industry and visitors to the southern New Jersey seashore resort towns. The Pleasantville barrier leading into Atlantic City represents approximately 38% of traffic and 22% of revenues. Traffic levels have been declining in recent years and are currently 22% lower than the peak traffic levels in 2008 as a result of the economic downturn, gaming competition from nearby states, and Superstorm Sandy. Toll revenues for the same period are 19.9% higher as a result of a toll increase implemented in 2008.

Revenue Risk- Volume: Weaker

MODERATE PRICING ABILITY WITH DEMONSTRATED WILLINGNESS TO RAISE RATES: The authority has moderate pricing ability. The average toll of \$1.46 for the expressway is reasonable and management has historically demonstrated willingness to raise rates when debt service coverage has declined or prior to the development of a large capital program.

Revenue Risk- Price: Midrange

VARIABLE-RATE DEBT SYNTHETICALLY FIXED: Approximately 19% of the authority's bonds outstanding are variable rate that is synthetically fixed through swap agreements that run to 2029. The authority has a relatively flat amortization schedule with debt service payments of \$30 million to \$32 million annually through 2035 and final maturity in 2039.

Debt Structure: Midrange

LARGE CAPITAL PROGRAM: The authority's 10-year capital program for 2014-2023 is large, totaling \$698 million - \$327 million for the airport and \$371 million for the expressway. However, many projects are discretionary and depend upon available funding. Management has indicated that no additional debt issuance is anticipated without additional source of revenues.

Infrastructure Development & Renewal: Midrange

MODERATE LEVERAGE WITH ADEQUATE FINANCIAL FLEXIBILITY: The expressway generates sufficient toll revenues to provide adequate financial cushion while supporting the Atlantic City International Airport (ACY) which continues to operate at a deficit. Senior debt service coverage per indenture was 1.62x in 2013 and 1.54x for the subordinate bonds. The authority is moderately leveraged at 7.7x net debt-to-cash flow available for debt service (CFADS). The authority has \$36.9 million of unrestricted cash equivalent to 296 days cash on hand.

RATING SENSITIVITY:

Negative action may be warranted should the authority experience any of the following:

--Further declines in traffic and toll revenues and/or increase in operating expenses, without a corresponding increase in toll rates, resulting in a DSCR profile that falls below the 1.5x-1.7x range;

--Deteriorating financial performance of the airport that leads to increased subsidy from the expressway;

--On-going capital improvement needs requiring future debt without additional revenues to support the bonds.

SECURITY:

Senior bonds are secured by pledged revenues after provision for an operating reserve equaling 15% of pledged project operating expenses. Pledged revenues primarily include toll revenues from the expressway, as well as certain parking and bus management fees. Current investment income is also pledged, along with fund balances. Airport revenues generated to cover debt service on bonds issued to fund airport projects are also pledged. Unlike other transactions, the subordinate bonds are paid not only after senior debt service obligations but they are also subordinate to a debt service reserve fund and rehabilitation and repair fund deposits.

CREDIT UPDATE:

Traffic on the expressway decreased 1.7% to 52.1 million transactions in 2013. Similarly, toll revenues decreased 1.9% to \$76.1 million. The effects of Superstorm Sandy led to lower traffic for the first half of 2013, but had a lesser impact during the summer months. Traffic consultant projects a 1.3% increase in traffic for 2014, accounting for some recovery for the first half of 2014. However, the severe winter conditions have led to a 5.4% traffic decrease for the first two months of 2014 and higher operating expense for snow removal.

Revenues of the pledged projects provided adequate coverage ratios of 1.62x for the senior lien and 1.54x for the subordinate lien. However, Fitch notes that the authority's coverage test for net revenues to meet all debt obligations, subordinated indebtedness, rehabilitation and repair requirements, state payments, and operating expense of general projects is thin at 1.1x. Given the uncertainty associated with increased gaming

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competition from nearby state casinos and the legalization of online gambling, controlling expenses and a further toll increase will be critical to maintain credit quality in case of flat to declining traffic.

In Fitch's sensitivity analysis, the base case scenario assumes flat traffic growth through 2016 followed by slight traffic growth and an increase in operating expenses of 3% per annum. Under this scenario, the authority will have to increase tolls in 2015 by 10% to maintain coverage ratios at 1.5x-1.7x. Fitch's rating case assumes stronger traffic sensitivity with traffic declines of 3% in each of 2014 and 2015 along with 4% growth in operating expense per annum. Under the rating case scenario, the authority will have to increase tolls by 15% to maintain current coverage ratios. It is Fitch's view that the expressway has economic rate-making flexibility with an average toll of \$1.46, but will monitor traffic trends and management's response to traffic levels.

In 2013, the authority entered into a management agreement with the Port Authority of New York and New Jersey (the Port Authority) to conduct operations at the airport and provide management services to grow air service. The authority will pay the Port Authority no less than \$500 thousand per year for the service. The term of the agreement is 15 years and the Port Authority will be able to purchase the airport if the authorities reach an agreement.

The expressway fund provided operating subsidy of \$4.4 million to the airport in 2013. Although obligations of general projects are in the bottom of the flow of funds, operating subsidy for the airport is a liability of the expressway and can have a direct impact on toll rates. The new arrangement with the Port Authority will focus on reducing operating subsidy from the expressway fund. Fitch will monitor whether the Port Authority, as an experienced operator, will be successful in bringing the operating subsidy down. Since the agreement took effect in June 2013, United Airlines announced that they will begin offering non-stop service to Chicago O'Hare and Houston's Bush Airport beginning April 2014.

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

Applicable Criteria and Related Research:

--Rating Criteria for Infrastructure and Project Finance, July 12, 2012;

--Rating Criteria for Toll Roads, Bridges, and Tunnels, Oct. 16, 2013.

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Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867

Rating Criteria for Toll Roads, Bridges and Tunnels

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720736

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=825167

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