FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms South Carolina Trans Infra Bank Rev Bonds at 'A'; Outlook Stable

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Fitch Ratings - New York - 11 May 2020: Fitch Ratings has affirmed the 'A' rating to the South Carolina Transportation Infrastructure Bank (SCTIB) revenue bonds, affecting approximately $1.4 billion in outstanding debt.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by:

--System payments primarily composed of 1) a junior lien on truck and motor vehicle registration fees and 2) payments from the South Carolina Department of Transportation (SCDOT) from non-tax sources including federal highway reimbursement funds, various state fees, fines, permits, project revenues, and other transaction fees.

--Series payments received pursuant to loan agreements with non-state entities, including local governments, and SCDOT, which are equivalent to related debt service; payments from SCDOT are made from its non-tax revenue sources. No local government payments currently support outstanding bonds.

--Transfers from SCTIB's revenue stabilization fund (RSF), funded from truck registration fees in certain years, to smooth revenues from this fee which is paid biennially.

ANALYTICAL CONCLUSION

Growth prospects for SCTIB's pledged revenues over the long-term are for stable growth and incorporate the state's expanding economic base as well as the contractual arrangements with SCDOT for series payments. Fitch anticipates debt service coverage will remain solid based on SCTIB's borrowing program and when considering the current economic downturn. SCTIB's revenue streams, bond issuance, operations, and governance are directly tied to the operations of the state and SCDOT, therefore the rating is explicitly capped by the state's Issuer Default Rating (IDR) of 'AAA'/Stable.

KEY RATING DRIVERS

SLOW GROWTH PROSPECTS FOR PLEDGED REVENUES: Looking through the current downturn, Fitch has projected slow but steady growth in revenues pledged to bond repayment. Following the expected economic weakening, system payments are expected to return to a level that reflects the state's economic growth given the economically sensitive nature of the key revenues. Series payments from SCDOT essentially match to debt service and are not tied to broader economic trends.

ROBUST REVENUE STREAM SENSITIVITY: Fitch anticipates maximum annual debt service (MADS) coverage will remain very resilient under downturn scenarios.

STATE FISCAL ADVICE AND COUNSEL: The state of South Carolina (IDR 'AAA'/Stable) has an underlying commitment and need for road infrastructure funded by the SCTIB. The state treasurer provides fiscal advice and counsel to the SCTIB and would enforce municipal

intercept provisions if needed.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Continued solid growth in system payments, following the expected falloff related to the pandemic and lockdown, and modest leveraging of this resource for future debt obligations would put positive pressure on the rating and could lead to an upgrade.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A decline in pledged revenues beyond the current stress cases that substantially reduces the resiliency of the bond structure could lead to a downgrade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The recent outbreak of the coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity only began very recently, most state governments' fiscal and economic data do not reflect any credit impairment. Material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward looking, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions hit major economies in the first half of 2020 at a speed and depth that is unprecedented since World War II. Recovery begins from the third quarter of 2020 onward as the health crisis subsides after a short but severe global recession. GDP remains below its fourth quarter 2019 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the April 2020 report 'Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update' on www.fitchratings.com.

Coronavirus -- SCTIB Liquidity and Bond Funding Update

SCTIB recently fully funded its semi-annual debt service requirements on April 1, 2020 and the next approaching debt service payment date is on October 1, 2020 and approximates $108 million. SCTIB expects to have recurring funds in place to fully fund that payment but additional support for this obligation is provided by the presence of $260 million in unrestricted cash (including funds in its pledged revenue account, subject to certain restrictions), a fully funded cash debt service reserve fund and the revenue stabilization fund. The swap collateral accounts for the series 2003B bonds are also fully funded.

Prior to the coronavirus pandemic and subsequent lockdown, the SCTIB projected steady but modest growth in revenues primarily tied to truck and motor vehicle registrations and motor fuel tax revenues (system payments) which account for about 75% of pledged revenues for the bonds. The balance of pledged revenues is primarily derived from payments from the South Carolina Department of Transportation (SCDOT) under agreements (series payments) between the SCTIB and the DOT.

Given the economic impacts of the coronavirus pandemic, Fitch's analysis of SCTIB's systems revenue is informed by Fitch's global infrastructure group (GIG) coronavirus scenarios for passenger and truck traffic on U.S. toll roads with significant traffic losses through 1H20 and moderate recovery through year end (Fitch Ratings Defines Coronavirus Scenarios for U.S. Toll Roads). These scenarios imply materially

more significant revenue declines than the largest cumulative decline in the SCTIB's system revenue history -- a 2.4% reduction between fiscal years 2008-2010. Applying the GIG coronavirus scenario assumptions, Fitch estimates SCTIB's total pledged revenues in fiscal 2020 would continue to provide a fairly stable level of coverage of MADS ($137.5 million in fiscal 2022) of 1.3x compared to 1.5x projected prior to the downturn. As calculated under the bond indenture, MADS ($92 million in fiscal 2023) would be covered 1.9x compared to 2.2x projected earlier. Assuming the revenue stream is leveraged to the maximum amount under the 1.35x ABT, pledged revenues could withstand a 35% decline before they were insufficient to fully cover debt service. Fitch believes strength in this structure continues to derive from the contractual agreements between the SCTIB and SCDOT for the series payments.

The GIG coronavirus scenarios provide a useful baseline for analysis of the security's resilience but Fitch acknowledges the limitations of applying national toll road scenarios to SCTIB's system revenues. System revenues include a range of transportation revenues that are not all closely correlated with traffic levels. Further, truck and motor vehicle tax revenue performance is expected to vary across U.S. governments based on both policy actions related to containment efforts and unique economic and demographic characteristics. However, issuer level distinctions are hard to predict at this time given the evolving and unparalleled nature of the crisis. Fitch did not apply a stress to the series payments as they follow formal agreements made with the SCDOT and are supported by the SCDOT's resources as an agency of the state of South Carolina.

ECONOMIC RESOURCE BASE

South Carolina's broad economic base with a large manufacturing sector has recorded solid and dispersed growth over the past several years, aided by significant investments in aerospace, high tech, tire and automobile manufacturing by companies such as Boeing, BMW and Michelin. Economic diversification is provided by the increased presence of trade, transportation, and warehousing operations but the state's above average leisure and hospitality sector is particularly exposed to economic disruption. Prior to the coronavirus crisis, employment growth had trended above U.S. annual averages since 2012, resulting in unemployment rates below the national average the three years through 2019. Wealth levels remain below both southeastern U.S. and national averages while quarterly growth rates are comparable to the U.S.

DEDICATED TAX CREDIT PROFILE

SCTIB's revenue streams, bond issuance, operations, and governance are directly tied to the operations of the state and SCDOT; therefore, the rating is linked to and capped by the state's 'AAA' IDR.

The SCTIB was created in 1997 by the South Carolina general assembly to help finance major state and municipal transportation projects with loans and other financial assistance. SCTIB obligations in the recent past included support for several local government transportation projects in the state but all have now either matured or are considered economically defeased. The bank is governed by a seven-member board of directors, which includes the chairman of the SCDOT and two appointees each of the state's governor, speaker of the house, and senate president. Many bank projects are managed by the SCDOT and the state treasurer's office provides advice and counsel on financial matters and serves as trustee.

The bank's revenue bonds are primarily secured by system payments and series payments (as defined above), as well as transfers from the RSF. Transfers from the RSF are designed to mitigate variability in truck registration fee revenues, although variability has been much reduced in recent years due to the state's strong economic growth. Growth in other revenue sources has also offset any fluctuations in this revenue sources, reducing the need for transfers from the RSF. Earnings on funds and accounts, except for the debt service fund, are additionally pledged but contribute only a small percentage of total revenues.

PLEDGED SYSTEM PAYMENTS

Fiscal year ended June 30, 2019, truck registration fees and motor vehicle registration fees represented about 79% of system payments and about 59% of all pledged revenues. Other system payments are made by SCDOT pursuant to terms of intergovernmental agreements in amounts equivalent to a portion of revenues from a privilege tax on power sold in the state and the equivalent yield of one cent of the state gas tax. Due to state constitutional prohibitions on the issuance of revenue bonds repayable from a tax source, SCDOT makes these equivalent payments from non-tax revenues. In fiscal 2019, federal highway reimbursement funds accounted for 57% of SCDOT non-tax revenues and various state fees accounted for the balance. Total non-tax revenue sources provided almost 19x coverage of SCDOT's $68.4 million in required payments to SCTIB.

Each pledged system payment source, including the payments from SCDOT, is subject to variable economic conditions, highlighted by total pledged system payments declining in fiscal years 2009 and 2010 during the great recession. System payments increased every year since then, with 2.7% year over year growth in fiscal 2019, led by motor vehicle registration fees which increased 4.1% reflecting the biennial collection cycle. Truck registration fees are collected in offsetting fiscal years. The equivalent yield of the state's gas tax demonstrated improved stability in recent fiscal years, reflecting the state's growing economy, although it continues to be offset by declining purchases related to growth in hybrid and electric vehicles.

Although the SCTIB's claim on the fee revenues is junior to the payment of state general obligation (GO) highway bonds, Fitch believes constitutional limitations on issuance of GO debt and the strong coverage of the GO bonds from other revenues minimize the effect of the subordination.

PLEDGED SERIES PAYMENTS

SCTIB receives series payments pursuant to loan agreements with SCDOT and has entered into loan agreements with participating local governments in past years, largely Horry County (GO bonds rated AA+). The county recently funded an escrow account for this obligation, thereby economically defeasing their obligation. State intercept provisions on state revenue sources are available in the event of nonpayment.

As with its system payments, SCDOT pays its series payment obligations from its non-tax revenue sources, including federal highway reimbursement funds. SCDOT has committed to limit leverage such that historical federal highway reimbursement funds provide no less than 3x coverage of its obligations to the SCTIB. SCDOT has committed to make its payments to SCTIB from other non-tax sources in the event federal highway reimbursements are insufficient.

GROWTH PROSPECTS FOR PLEDGED REVENUES

Prior to the pandemic, Fitch projected slow but steady growth in pledged revenues. Declines in system payments are anticipated for fiscal 2020 followed by renewed growth in fiscal 2021. Long-term, system payments will reflect modest growth in truck registration fees, motor vehicle registration fees, and an amount equivalent to one cent of the economically-sensitive gas tax at or above the inflation rate. Series payments from SCDOT are matched to debt service, providing for debt service coverage from all pledged revenue sources, as calculated by Fitch, which typically ranges around 1.5x.

RESILIENCE OF SECURITY

In addition to the stress analysis noted earlier informed by GIG's toll roads coronavirus scenarios, Fitch also assessed resilience using FAST and our companywide expectations for national GDP through the current environment (https://www.fitchratings.com/research/fund-asset-managers/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-29-04-2020). The expectations for MADS coverage analysis relative to the FAST output implies a coverage multiple that is solidly 'aaa' under both the Fitch calculation (combined system and series payments) and the indenture calculation, which reduces debt service by series payments and debt service fund interest prior to calculating debt service coverage. Given the generally steady flow of revenues, MADS coverage is expected to remain resilient even through the current downturn. SCTIB generally plans for future debt service coverage to remain above the 1.35x ABT.

CRITERIA VARIATION

No

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
South Carolina, State of (SC) [General Government]				
• South Carolina Transportation Infrastructure Bank (SC) /General Revenues/1 LT	LT	A	Affirmed	A

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

South Carolina Transportation Infrastructure Bank (SC)	EU Endorsed

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