MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Delaware River Port Authority, PA's revenue bonds rating to A1 from A2; outlook stable

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New York, February 04, 2020 -- Moody's Investors Service has upgraded the rating on the Delaware River Port Authority, PA's (DRPA) outstanding revenue bonds to A1 from A2 and the rating on its outstanding Port District Project (PDP) bonds to Baa1 from Baa2. The outlook was changed to stable from positive. Total outstanding debt is around $1.23 billion.

RATINGS RATIONALE

The rating upgrade was prompted by DRPA's solid metrics in fiscal year 2018 and expected for 2019 despite a slow down in traffic growth experienced over the last 24 months. In fiscal year 2018 total transactions increased by just 0.7% and year-to-date September 2019 traffic volumes declined slightly by 0.6% from the same period last year.

Moody's projects that management will continue to maintain a tight control over costs even in a more stable growth environment which should support a bond ordinance DSCR of around 2.0x (2.21 in fiscal year 2018), a Moody's senior net revenue DSCR of around 1.75x (1.97x in fiscal year 2018) and a total DSCR of at least 1.5x (1.69x in fiscal year 2018).

Liquidity has started to decline slightly as 2018 bond proceeds are being used to fund a 5 -year capital plan for 2020-2024 of $810 million. Days cash on hand in fiscal year 2018 declined to around 1,230 including the 2018 bond proceeds (576 days excluding the bond proceeds) from 1,444 days cash on hand in fiscal year 2017. Moody's expects that cash will continue to deplete in the next 12-24 months as no new debt issuances or toll rate increases are planned in the near term and capex will be funded from operating cash flow generation and existing liquidity reserves. However, days cash on hand should remain well above 500 days in the next few years.

The A1 rating also considers the mature service area in the Philadelphia metro area, no toll rate increases or debt issuance planned in the next 24 months, the use of bridge toll revenue to subsidize operating losses at the PATCO transit system, as well the risk as a bi-state agency that PA and NJ board members might focus on competing priorities. We note that toll rates have been last increased in 2011 and certain nearby crossings of other agencies have recently increased tolls in 2019, which provides some flexibility to implement future toll rate increases, if necessary.

The Baa1 rating on the PDP bonds reflects the lack of a lien on a specific revenue stream and lack of a rate covenant. The PDP bonds benefit from a fully funded debt service reserve fund similar to the A1 rated revenue bonds.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that DRPA will maintain a bond ordinance DSCR of around 2.0x, a Moody's senior net revenue DSCR of around 1.75x, a total DSCR of at least 1.5x, and days cash on hand above 500 days.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant increases in traffic volumes and revenues that lead to Moody's senior net revenue DSCR above 2.5x and Moody's total DSCR above 2.0x for a sustained period of time

- Stable liquidity profile while maintaining asset conditions and continuing with scheduled capital expenditure improvements

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Modestly declining traffic volumes and revenues or increased expenditure pressure that lead to Moody's senior net revenue DSCR below 1.6x and Moody's total DSCR below 1.4x for a sustained period of time

- Material deterioration in liquidity profile with cash on hand falling below 500 days

LEGAL SECURITY

The senior lien revenue bonds are payable from a senior lien on net revenues. The bonds are backed by a debt service reserve fund (DSRF) sized at the lesser of maximum annual debt service (MADS) or 125% of average annual debt service. The revenue bond rate covenant is equal to the greater of 1) 105% of the debt service requirement of all revenue bonds plus required DSRF deposits, Maintenance Reserve Fund deposits and PATCO subsidies for a given fiscal year and 2) 120% of the debt service requirement for all revenue bonds.

DRPA's PDP bonds are general corporate obligations of the authority, payable from all legally available revenues after payments on the authority's revenue bonds. They are backed by a cash-funded debt service reserve equal to the lesser of maximum annual debt service, 125% of average annual debt service, or 10% of the bond proceeds. The 1999 PDP bonds will fully amortize by January 1, 2021.

PROFILE

The Delaware River Port Authority (DRPA) owns and operates a small regional network of four bridges crossing the Delaware river in the greater Philadelphia metropolitan area: Benjamin Franklin Bridge, Commodore Barry Bridge, Walt Whitman Bridge, and Betsy Ross Bridge. Bridge tolls generate close to 90% of the authority's operating revenue. DRPA also owns a rapid transit line which runs between Philadelphia and Lindenwold, New Jersey through its wholly-owned subsidiary, the Port Authority Transit Corporation (PATCO). In 2018, the authority generated operating revenues of $372 million.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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