

U.S. Municipal Bond Market

## Driving the Case for U.S. Toll Road Bonds

### Toll Road Issuers Maintain Fiscal Strength on Abundant Cash and Healthy Margins

We continue to observe that financial metrics have been on a strong improving trend from pandemic lows and should remain sound in 2024. Numerous large toll road issuers have amassed abundant cash holdings that provide a deep level of financial flexibility, which we also expect are likely be used to fund capital projects, thereby reducing the need for incremental new debt. Additionally, many toll roads have inflation-linked toll raising policies which enable them to maintain very health operating margins and solid debt coverage. Traffic volume, as measured by vehicle miles traveled, quickly recovered from pandemic lows and illustrates the durability of demand for highway driving. Toll road index yields have recently topped 10-year highs. Furthermore, toll road credits tend to be under rated and offer wider spreads than comparable high-grade credits. We think bond investors seeking to lock in relative value opportunities should consider adding U.S. toll road bonds with at least five years of call protection.

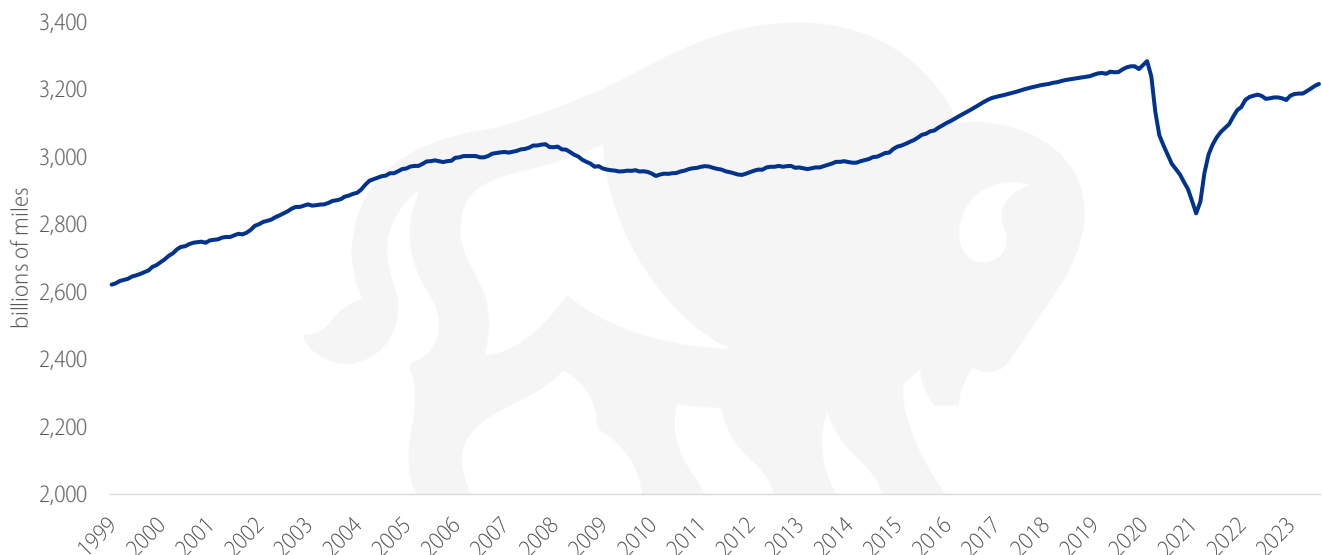
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### Financial Metrics of Select Benchmark Toll Roads Remain Sound

Issuer	State	FY End	Latest Annual Filing	Tot Assets (\$Mln)	Total Op Rev (\$Mln)	Total Op Exp (\$Mln)	OPM (%)	DCOH	DSC
Oklahoma Turnpike Authority	OK	12/2022	2022	3,307.83	361.90	249.58	31.0	627	1.73
Illinois State Toll Highway Au	IL	12/2022	2022	14,327.71	1,554.48	382.14	75.4	1,177	2.43
Pennsylvania Turnpike Commissi	PA	05/2023	2023	11,020.34	1,596.65	945.10	40.8	583	1.08
North Texas Tollway	TX	12/2022	2022	10,812.78	1,159.09	319.33	72.4	1,409	1.39
New Jersey Turnpike Authority	NJ	12/2022	2022	17,767.18	2,322.04	1,069.42	53.9	1,027	1.61

Source: Bloomberg and HilltopSecurities.

### Vehicle Miles Traveled Continues to Recover From Pandemic Lows



Source: U.S. Dept. of Transportation and Hilltop Securities. This is a 12-month moving average and #s are in billions of vehicle miles traveled on all roads.

## Toll Road Index Yield is over a 10-year High



Source: S&P Dow Jones Indices and HilltopSecurities. Data is on a yield-to-worst basis.

## Toll Revenue Credits May Offer Attractive High-Grade Spread Opportunities

Toll Revenue Credit Spreads: 10-Year Yields vs. Triple-A Benchmark											
	Comp. Rating	2020	2021	2022				2023			
		Dec 31	Dec 31	Mar 31	Jun 30	Sep 30	Dec 30	Mar 31	Jun 30	Sep 29	Oct 16
AAA	AAA	0.69%	1.05%	2.23%	2.75%	3.26%	2.64%	2.28%	2.55%	3.44%	3.46%
Oklahoma Turnpike	AA3	+19	+1	+22	+38	+44	+7	+25	+22	+24	+34
Illinois Toll Highway	AA3	+36	+24	+40	+36	+47	+30	+29	+36	+40	+31
Pennsylvania Turnpike	AA3	+29	+18	+29	+36	+49	+42	+39	+38	+53	+25
North Texas Tollway First Tier	AA3	+36	+5	+32	+43	+51	+47	+38	+61	+38	+34
Nort Texas Tollway Second Tier	A1	+35	+22	+41	+60	+63	+35	+40	+53	+48	+44
New Jersey Turnpike	A1	+38	+20	+30	+39	+46	+32	+30	+37	+36	+32

Source: CreditSights, Bloomberg BVAL benchmark yield curves, HilltopSecurities.

Spreads in basis points. Composite Rating uses the ICE methodology. BVAL curves are sorted by composite rating.

## Also See the Toll Facilities Sector Outlook

- [The Municipal Market in 2023, Hilltop's Municipal Sector Credit Outlooks, Jan. 17, 2023](#)

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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