Empire State Thruway Partners LLC

Ratings

New Issue

$269,100,000	Exempt Facility Revenue Bonds, Series 2021 (Tax Exempt) (AMT)	BBB–

Rating Outlook

Stable

Peer Group

Harris County Toll Road Authority	AA
Pennsylvania Turnpike Commission	A+
Roadster Finance DAC	BBB–

Applicable Criteria

Infrastructure and Project Finance Rating Criteria (March 2020)

Key Rating Drivers

The rating reflects New York State Thruway Authority's (NYSTA) large and mature corridor, with modest, but resilient traffic growth directly supporting a long history of service area sales. While sales revenues are exposed to economic downturns and discretionary spending, historical sales grew steadily since 2012, and planned redevelopment of all 27 service areas is expected to provide significant uplift in future revenues driven by new restaurant offerings and other ancillary revenues, including truck fueling, electronic vehicle charging and advertising revenue.

The rating further reflects the incorporation of ancillary revenues to support Empire State Thruway Partners LLC's (ESTP) slightly escalating debt service profile. Projected debt service coverage ratios (DSCR) are expected to be healthy, averaging 1.8x under Fitch's rating case scenario; however, leverage remains elevated averaging 7.4x through the debt term.

High-Quality Contractor and Phased Construction (Completion Risk: Stronger): The project benefits from a design-build (DB) contractor (AECOM Tishman) with strong credit quality. Construction of the 27 service areas is expected to take just under five years and sites will be split into two groups, each with a separate redevelopment phase. The total construction price is a manageable $300.7 million, with a solid security package.

Mature Traffic Profile, Modest Growth (Revenue Risk [Volume]: Midrange): While the project is resilient to traffic declines, passenger traffic is the key revenue driver of service area sales, and thruway car traffic increased at a 10-year CAGR of roughly 0.7%, reflecting the mature and modest socioeconomic growth of upstate New York. The thruway remains a large and essential corridor in the state and growth is expected to be modest but sufficient to support future sales.

Structured Contracts with Minimum Guarantees (Revenue Risk [Price]: Midrange): The comprehensive 33-year lease agreement with NYSTA allows ESTP to design, build, finance, operate, and maintain (DBFOM) all 27 service areas on the thruway. ESTP will pass its food and beverage (F&B) operating responsibilities to Applegreen NY Travel Plazas, LLC and receive a percentage of aggregate gross sales revenues, subject to minimum annual guarantees. Rent to NYSTA is a smaller percentage of gross sales, providing an adequate spread for return. ESTP is able to pursue certain ancillary opportunities.

Limited Capex Needs Following Full Renovation (Infrastructure Development and Renewal: Stronger): Upon completion of redevelopment, service areas will have newly renovated facilities with minimal maintenance and capex needs. The scope of future investment will include major maintenance, repairs and replacement of service area equipment, structures, improvements, fixtures, all utilities and all other property constituting the service areas. The overall capital cost burden to ESTP is low and manageable compared with total costs and the project benefits from a renewal and replacement reserve account.

Escalating Debt Profile (Debt Structure: Midrange): The bonds are senior, fixed rate, and benefit from a six-month cash-funded debt service reserve account (DSRA) with an equity lockup threshold of 1.20x. While the bonds are fully amortizing over the term, the debt service profile escalates from $11 million and reaches $29 million by the end of the term, placing additional dependence on revenue growth over time.

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Financial Summary

Coverage remains robust under Fitch's rating case scenario averaging 1.8x, and reflects resilience to economic downturns and low reliance on future growth to support escalating debt service. However, leverage remains elevated in the first half of the debt term due to limited accumulation of cash balances, and averages 7.4x over the debt term.

Peer Group

In terms of volume, projected traffic trends, and the nature of the asset in relation to the New York Thruway, ESTP's peers consist of large U.S. toll facility networks, such as Harris County Toll Road Authority (HCTRA) (AA/Stable) and Pennsylvania Turnpike Commission (A+/Stable), that exhibit mature and stable traffic profiles with limited growth. Fitch also looks to Roadster Finance DAC, (Tank & Rast project) (BBB–/Negative) in Germany as a peer motorway service area operator.

Although F&B sales drivers are similar to ESTP, Tank & Rast is a much larger entity with a monopoly on the German motorway service area industry and operates as landlord to service area sites. Additionally, Tank & Rast derives the majority of revenues from car fueling services and contracted fuel commissions from oil companies. As a bullet debt issuer, Tank & Rast is also rated to a higher metric threshold compared with ESTP. Fitch maintains both public and private ratings on various stadiums and arenas where, like ESTP, debt service is reliant on revenues derived from F&B sales. Most of these assets in the 'BBB category' exhibit coverage metrics of 1.8x and above.

Rating Sensitivities

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- Positive rating action is unlikely in the near term given elevated leverage levels throughout the redevelopment period.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- Deterioration of revenues or significant unforeseen increase in costs leading rating case DSCRs to fall below 1.5x on a sustained basis.
- Material debt increase and/or deterioration of cash flow and available liquidity leading to rating case leverage to rise significantly above 10x on a sustained basis.
- Completion or construction delays that could delay project completion timeline or lead to financial pressure.

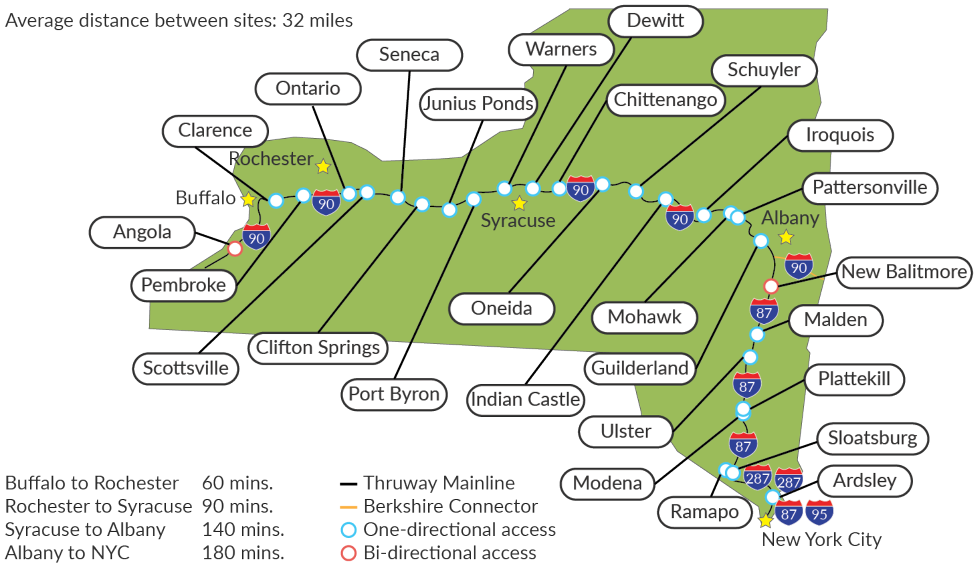
Capital Structure

Class	Amount ($ Mil.)	Final Maturity	Rating/Outlook
Exempt Facility Revenue Bonds, Series 2021	269.1	2053	BBB–/Stable

Source: Empire State Thruway Partners LLC.

Overview

New York State Thruway Service Area



Source: Oliver Wyman.

The New York State Thruway has 27 service areas across a 496-mile stretch of the thruway. Most of these plazas are one-directional, except New Baltimore and Angola that can be accessed from both directions. The average distance between service areas along the thruway is 32 miles.

Given the age and design of the existing service areas, coupled with dated amenities and quick service restaurant (QSR) offerings, NYSTA partnered with ESTP in a DBFOM public-private partnership to redevelop and operate all 27 service areas on the thruway. The redeveloped sites are expected to provide a significant uplift in future service area sales revenues and drastically improve customer satisfaction. Senior revenue bonds will finance construction, which runs July 2021 through 2025. Under the lease agreement with NYSTA, to limit service disruptions, no two adjacent sites on the thruway may be under construction simultaneously, and a portion of sites will always remain in operation during redevelopment. ESTP will operate and maintain the service areas for the contract term through 2054. Bond repayment will come from a percentage of gross sales revenues and ancillary revenues, subject to minimum annual guarantees (MAGs), from the sites.

Enterprise/Project Summary

Enterprise/Project Summary Data		Financial Summary Data	
Project Type	Motorway Service Area Redevelopment	**Rated Debt Terms**	$269.1 Mil. senior, fixed-rate private activity bonds.
Project Location	New York	**Amortization Profile**	Fully amortizing, escalating debt service profile
Status	Pre-redevelopment	**Tail Before Concession Maturity**	15 months
Completion Guarantor	Parent Company Guarantee of AECOM Technical Services, Inc.	**F&B Operator Guarantor**	Applegreen plc
Revenue Basis	Volume		
Concession Maturity	2054	**Reserves**	• Debt service reserve account sized to six months of principal and interest. • Renewal and replacement account: The greater of 1% of total construction costs during redevelopment, or the aggregate annual reinvestment committed to be made at the opening date. • Liquidity reserve account: Sized to preserve a minimum DSCR level of 1.75x, per sponsor forecast, immediately following redevelopment.
Concession Granting Authority	New York State Thruway Authority (NYSTA)	**Transaction Triggers**	• Equity lockup: 1.20x • ABT: 2.13x
Applicable Regulation	State of New York and Federal Regulations		
Design-Build Contractor	AECOM Tishman		
F&B Operator	Applegreen NY Travel Plazas, LLC		
Equity Sponsor	Applegreen plc		
Technical Advisors	• Altus (Lender Technical Advisor) • Emerton (Lenders Revenue Advisor) • Oliver Wyman (Sponsor Revenue Advisor)		
Insurance Advisor	INTECH Risk Management GmbH		

F&B – Food and beverage. DSCR – Debt service coverage ratio. ABT – Additional bonds test.
Source: Empire State Thruway Partners LLC.

Ownership and Sponsors

NYSTA is the public authority that owns and operates the thruway and its service areas. NYSTA will retain ownership of the sites and all modifications and improvements made upon them. ESTP, the lessee operator of the sites, is 100% owned by Applegreen plc. F&B operations will be subcontracted to Applegreen NY Travel Plazas, LLC (F&B Co), which is also a wholly owned subsidiary of Applegreen plc. Applegreen plc is a roadside retail operator focused on fuel, convenience store and food to go, with operations in the United States, Ireland, and the United Kingdom and has 559 sites in operation.

Key Risks

Completion Risk

The project benefits from a DB contractor (AECOM Tishman) with strong credit quality. Construction of the 27 service areas is expected to take just under five years and sites will be split into two groups, each with a separate redevelopment phase. Under the lease agreement with NYSTA, to limit service disruptions, no two adjacent sites on the thruway may be under construction simultaneously, and a portion of sites will always remain in operation during redevelopment. The total construction price is a manageable $300.7 million.

The security package supporting the DB contract includes an LOC in the amount equal to 5% of the DB contract price, contracting authority liquidated damages based on daily minimum annual guaranteed rent, delay liquidated damages based on a per day calculation for each service area, payment and performance bonds sized to 100% of the total construction price, and retainage.

The renovation and refurbishment of service area sites is considered low in complexity, and the techniques used are standard practice for buildings of this type. Environmental and geo-tech risks are low as redevelopment works will remain on the existing site footprint and assessments have already been prepared on behalf of the authority.

Multiple parties will be onsite during construction, including the gas station operator and the DB contractor, which presents some interfacing risks. However, this is expected to be offset by the interface agreement between the DB contractor and F&B operator. Additionally, logistics of constructing 27 separate sites in multiple phases may present additional challenges in timing and concurrent operations. While AECOM Tishman is an experienced contractor with a successful track record in projects of similar type, scale and region, there are multiple replacement contractors available to perform such construction should the need for replacement arise.

Mature Traffic Profile

The thruway is one of the largest tolled highway systems in the U.S. and exhibits a mature traffic profile, consisting primarily of passenger cars (89%), with some commercial truck volume (11%). Much of the thruway runs through upstate New York, with generally flat population growth, while the eastern terminus run through the New York City metropolitan area and has higher socioeconomic growth prospects. Thruway passenger traffic is comprised of predominately leisure and discretionary trips and faces exposure to economic downturns and toll increases. However, the thruway remains a large and essential corridor in the state and growth is expected to be modest but sufficient to support future sales. While the project is resilient to traffic declines, passenger traffic is the key revenue driver of service area sales, and thruway car traffic increased at a 10-year CAGR of roughly 0.7%, reflecting the mature and modest socioeconomic growth in upstate New York.

Structured Contracts with Minimum Guarantees

The comprehensive 33-year lease agreement with NYSTA allows ESTP to DBFOM all 27 service areas on the thruway, and to contract out its obligations to third parties on a back to back basis. As such, ESTP will pass its F&B operating responsibilities to Applegreen NY Travel Plazas, LLC and receive 11.5% of aggregate gross sales revenues post-redevelopment, subject to MAGs and scheduled escalations. Rent to NYSTA is minimal at 0.84% of gross sales, providing an adequate spread for return.

Revenues are derived from sales-based rental payments and ancillary revenues earned by Applegreen NY Travel Plazas, LLC over the term of the lease. During construction, a portion of the sites will still be operational due to the phased construction schedule, and ESTP will earn rent on a reduced percentage of service area sales. Upon completion of construction, Applegreen NY Travel Plazas, LLC will pay ESTP 11.5% of gross sales revenues in the form of rent, subject to MAGs.

Rent to NYSTA is minimal at 0.84% of gross sales, providing an adequate spread for return. With NYSTA approvals, the lease provides flexibility to swap underperforming brands and allows survey-based F&B price setting, with premiums up to 10% above nearby competitors. Additionally, ESTP is able to pursue certain ancillary opportunities (truck fueling, electronic vehicle charging and advertising), providing alternative revenue streams, but contract protections in the form of termination and default provisions are largely in favor of the authority.

The lender's revenue advisor performed in-depth analysis and projections on the evolution of the following operating revenue-driven metrics:

- Traffic: Number of cars that drive past each service area.

- Capture Rate: Percentage of cars that will stop at each service area.
- Purchase Rate: Percentage of stopped cars that will make a purchase at a QSR and/or convenience store.
- Ticket Size: Average amount in USD spent by transaction.

ESTP projects that the redevelopment initiative will result in improved capture and purchase rates, while improved offerings and brands will translate to higher ticket sizes. ESTP projects that the growth in these inputs will result in a 73% sales uplift by 2026, compared with 2019 sales figures. While such assumptions are in line with actual post-redevelopment performance of peers and similarly sized assets, Fitch applied more conservative uplift assumptions for sales revenue, which are outlined in greater detail in our case descriptions below.

Benchmarks of Peer U.S. Service Area Redevelopment Projects

Characteristic	NYSTA (Concession Projections)	Connecticut	Florida
Miles	496	Varies (I-95, I-395, RT15)	498
Pre-Redevelopment Traits	Aging facilities. Poor to midrange QSR offerings.	Comparable traffic profile to NYSTA. Aging facilities. Poor to no QSR offerings at rest areas.	Aging facilities. Midrange QSR offerings. Limited number of total services areas.
Redevelopment Plan	Renovation of 100% of service areas. Replacement of QSRs with best-in-class brands.	Renovation of 75% of service areas. Addition of best-in-class QSR brands.	Renovation of 88% of service areas. Replacement of QSRs with best-in-class brands
Redevelopment Scale	27 SAs (100%)	23 SAs (75%)	7 SAs (88%)
Redevelopment Period (Years)	4.5	6.5	6
Pre-Redevelopment Capture Rate (%)	7.9	6.5	12
Capture Rate Evolution (%)	7.9–8.5	6.5–10.0	11–12
Purchase Rate (%)	50	51	N.A.
Average Ticket Size ($)	20.38	N.A.	N.A.
Post-Redevelopment Revenue Uplift (%)	73 (projected)	64 (actual)	33 (actual)

QSR – Quick service restaurant. SA – Service area N.A. – Not applicable Note: The metrics above reflect ESTP's post-redevelopment projections. Fitch has incorporated varying assumptions relating to these projections in the base and rating case.
Source: Emerton.

Limited Capex Needs Following Full Renovation

Upon completion of redevelopment, service areas will have newly renovated facilities with minimal maintenance and capex needs. The scope of future investment will include major maintenance, repairs and replacement of service area equipment, structures, improvements, fixtures, all utilities and all other property constituting the service areas.

Under the operating agreement, ESTP is responsible for site renewal and replacement costs, totaling roughly $4.8 million annually for the first 10 years, which are largely driven by renewal and replacement reserve account obligations as outlined under the lease agreement. However, in the following 10-year period, scheduled renewals and replacements of major equipment at each site will cause capex to rise up to an average of $9 million during this period before stepping down. Despite this increase, the overall capital cost burden to ESTP is low and manageable, compared with total costs and the project benefits from a renewal and replacement reserve account.

Debt Structure

The bonds are senior, fixed rate and benefit from a six-month cash-funded DSRA, with an equity lock-up threshold of 1.20x DSCR. While the bonds are fully amortizing over the term, the debt service profile escalates from $11 million and reaches $29 million by the end of the term, placing additional dependence on revenue growth over time.

Amortization

The private activity bonds are fully amortizing.

Payment Waterfall Ranking

1. Operating Account
2. Rebate Fund
3. Renewal and Replacement Reserve Account
4. Bond Interest Sub-Account
5. Bond Principal Sub-Account
6. Debt Service Reserve Account
7. Handback Reserve Account
8. Discretionary capital expenditures
9. Equity Lock-Up Account

Liquidity and Reserves

- DSRA is sized to six months principal and interest.
- Renewal and replacement account is sized to greater of 1% of total construction costs during redevelopment, or the aggregate annual reinvestment committed to be made at the opening date.
- Liquidity reserve account: Sized to preserve a minimum DSCR level of 1.75x, per sponsor forecast, immediately following redevelopment.

Security

Net project revenues comprises aggregate amount of all rents, payments from the F&B operator, and payments from the authority under the lease agreement.

Financial Analysis

Fitch's base case incorporates the sponsor's traffic projections through 2029. Subsequently, traffic growth rates are more modest, yielding a 35-year CAGR of 0.7% (versus the sponsor's projections of 1%). Given the conservative approach taken in forecasting capture rate, purchase rate and ticket size, Fitch's base case maintains these assumptions. While the sponsor's post-redevelopment revenue uplift is lower than actual results of similar redevelopment initiatives in other states, including Connecticut and Florida, Fitch's base case haircuts sales revenue uplift in 2026 to 55% over the 2019 number.

Thereafter, growth is based on the annual rate of growth seen in the sponsor case. Ancillary revenues were haircut to a level that maintains the MAG. The sponsor's cost profile was deemed to be reasonable and therefore carried over to the base case. Under this case, average DSCR for the life of the debt is 2.01x with a minimum of 1.69x. Post-construction leverage (2026) is 12.5x and de-levers to 4.42x after 20 years.

Fitch's rating case incorporates an additional traffic stress over that of the case. Traffic growth rates are more modest, yielding a 35-year CAGR of 0.5% (versus the base case projections of 0.7%). Given the conservative approach taken in forecasting capture rate, purchase rate and ticket size, Fitch's rating case maintains these assumptions. While the sponsor's post-redevelopment revenue uplift is lower than actual results of similar redevelopment initiatives in other states, including Connecticut and Florida, Fitch's rating case haircut sales revenue uplift in 2026 to 45% over the 2019 number.

Thereafter, growth is based on the annual rate of growth seen in the sponsor case. Ancillary revenues were haircut to a level that maintains the MAG. The special-purpose vehicle cost growth rate was increased by 0.5% annually. Additionally, renewal and replacement costs experience a 5% cost overrun annually. Under this case, average DSCR for the life of the debt is 1.80x with a minimum of 1.56x. Post-construction leverage (2026) is 13.43x and de-levers to 5.06x after 20 years.

Fitch examined two break-even scenarios for the purpose of this review: a traffic break-even and an all-cost break-even. Commencing in 2026, the annual traffic decline to maintain a 1.0x DSCR for remaining term (using the DSRA to supplement shortfalls) is negative 4.23%. Additionally, an all-cost break even minimum of 128% was calculated from Fitch's base case assumptions. This metric far exceeds criteria guidance for other infrastructure assets at a similar rating category, suggesting that it is highly unlikely that cost overruns (including renewal and replacement costs) will result in a payment default by the concession.

Key Financial Metrics

(x)	Fitch Base Case	Fitch Rating Case
Minimum DSCR	1.69	1.56
Debt Life Average DSCR	2.01	1.80
10-Year DSCR Average	1.82	1.65
20-Year DSCR Average	1.88	1.69
Initial Leverage (2026)	12.50	13.43
Year 10 Leverage	8.73	9.85
Year 20 Leverage	4.42	5.06

DSCR – Debt service coverage ratio.
Source: Fitch, Empire State Thruway Partners.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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