Moody's Investors Service

Global Credit Research
New Issue
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New Issue: North Texas Tollway Authority, TX

MOODY'S ASSIGNS A2 RATING TO NORTH TEXAS TOLL AUTHORITY'S FIRST TIER REVENUE BONDS AND AFFIRMS A3 RATING ON SECOND TIER BONDS; RATING OUTLOOK REVISED TO NEGATIVE FROM STABLE

AUTHORITY HAS $7.1 BILLION RATED DEBT OUTSTANDING

Toll Roads
TX

Moody's Rating

ISSUE		RATING
First Tier Build America Bonds (BAB)		A2
Sale Amount	$810,000,000	
Expected Sale Date	07/30/09	
Rating Description	Revenue	
First Tier Current Interest Bonds		A2
Sale Amount	$360,000,000	
Expected Sale Date	07/30/09	
Rating Description	Revenue	

Moody's Outlook Negative

Opinion

NEW YORK, Jul 30, 2009 -- Moody's Investors Service has assigned A2 ratings to the North Texas Tollway Authority's (NTTA) $360 million First Tier Revenue Bonds, Series 2009A and $810 million Series 2009B. We have revised the rating outlook to negative from stable due to uncertainties resulting from weaker than projected traffic growth due to the economic recession as well as higher costs of debt service. Although this has resulted in coverage levels below those previously projected, a recently adopted toll increase is expected to substantially bolster revenues. We also have affirmed the A2 rating on outstanding first tier revenue bonds and the A3 rating on outstanding second tier bonds. The A-level ratings recognize the positive steps undertaken by NTTA management to bolster revenues through recent rate increases and limit operating and capital expenditures.

Moody's rating also incorporates a number of credit considerations including the substantial amount of debt associated ($3.2 billion) with the Sam Rayburn Tollway (SRT or SH 121) project agreement with the Texas Department of Transportation (TxDOT) for acquisition and construction; the continued capital investment needed for an expanding tollway system; modest construction and ramp-up risk associated with the SH 121 project and NTTA's willingness to raise tolls as evidenced by the adoption of a new tolling schedule to be effective in September 2009.

USE OF PROCEEDS: Approximately $733.2 million of proceeds are allocated for projects and funding of $90.9 million outstanding CP, and $302.1 million for debt refunding/restructuring and an approximately $10 million swap termination payment. An additional $116.1 million of proceeds will fund capitalized interest at the debt service reserve fund (DSRF). Approximately $810 million in Series 2009B bonds will be issued as Build American Bonds (BABs) with and interest rate subsidy payable to the trustee to offset interest costs. The Series 2009A and Series 2009B bonds will refund $161.11 million Series 2005C FGIC insured variable rate demand bonds (VRDOs) being held as bank bonds by Depfa; provide funding for completion of capital projects, including the SRT or SH 121 and the President George Bush Tollway Eastern Extension (PGBT EE) as well as refund portions of Series 1997, 1997A, and 1998 bonds and fund $90.9 million CP. As part of this transaction, the authority will remarket into fixed rate mode the $178.31 million balance of the Series 2005C bonds not being refinanced by the Series 2009A bonds. In September the authority expects to refund $334.75 million in bonds with a January 1, 2010. A portion of the September refunding is expected to be VRDOs backed by a letter of credit (LOC).

LEGAL SECURITY: NTTA's bonds are secured by net system revenues. The rate covenant in the amended and restated trust agreement dated April 1, 2008 under which these bonds are issued requires net revenues to provide at least 1.35 times coverage of first tier debt service requirements; 1.2 times coverage of outstanding first tier and second tier debt service and 1.0 times coverage on all outstanding obligations secured by net revenues, including third tier bonds. The rate covenant is not limited by the tolling formula set forth in the project agreement NTTA signed with TxDOT for SH 121 or by the authority's toll policy adopted through a board resolution. The first tier bonds are additionally secured by a debt service reserve fund equal to average annual debt service. Second and third tier reserves may be provided pursuant to supplemental agreements authorizing the bonds and a debt service reserve of one-half average annual debt service was funded for the benefit of second tier bondholders with the issuance of second tier bonds in July 2008.

INTEREST RATE DERIVATIVES:

The authority has two interest rate swaps currently outstanding: the 2004 swap, executed August 20, 2004 for a notional amount of $202 million, effective 12/15/2005 (authority pays a fixed interest rate of 3.673% and receives a floating rate of 67% of LIBOR) and the 2005 swap with a notional amount of $131 million, effective 12/15/2005 (authority pays a fixed rate of 3.533% and receives a floating rate of 67% of LIBOR). The current mark-to-market of the swaps is negative approximately $21.95 million. As part of this transaction the authority is terminating portions of the swaps at a termination cost of approximately $10 million, payable from bond proceeds.

The term of both of the swaps matches the amortization of a like principal amount of the 2005 C bonds and the swap payments are insured by FGIC, and carry a speculative grade short-term rating from Moody's. The swaps may not be a perfect hedge and the authority may have a mismatch between the variable rate payments it receives and the payments it makes on its 2005 C bonds (basis risk). Because of the failed remarketing of the 2005 C variable rate bonds resulting from the speculative short term rating on the bonds, all but $5.5 million bonds are being held by Depfa Bank as bank bonds pursuant to a standby bond purchase agreement between Depfa and NTTA. The net rate on the bonds is a very high 9.73%, hence the authority is expecting to realize savings by terminating the swap and fixing out $161.11 million of the underlying bonds. The remaining $178.31 million of the 2005C bonds will be remarketed into fixed rate mode as part of this transaction in August.

Payments other than those related to termination are insured under the swap and are on parity with the authority's first tier debt; termination payments are subordinate to both first and second tier lines and the authority's commercial paper obligations, which are secured as third tier debt, but senior to the Intermodal Surface Transportation Efficiency Act (ISTEA) loan. Portions of the swaps have collateral posting requirements tied to FGIC's rating and the authority's rating while other portions of the swaps have no collateral posting requirements. NTTA would be required to post collateral if FGIC failed to maintain an A- rating from S&P or an A3 rating from Moody's and NTTA's first tier bond credit rating was downgraded below A3 by Moody's or A- by S&P.

The swaps could be terminated under certain conditions and would require a termination payment by the authority if the mark-to-market were negative. All of the swap agreements could be terminated if there were an event of default by the authority and if FGIC falls below A3 by Moody's and A- by S&P (FGIC is below this rating trigger).

CREDIT STRENGTHS

* Strong regional economy experiencing continued population and employment growth; high per capita income;

* Revenue and transaction growth has been very strong due to regional population growth, but has slowed recently due to recession

* Strong tolling policy and demonstrated willingness and ability to increase toll rates offset concerns about

slowed traffic growth and escalating debt service requirements. Toll rates remain relatively competitive and provide margin for increase

* Historically solid debt service coverage ratios, though projections show weakening, coverage is projected to remain above 1.51x for first tier and 1.26x for first and second tier

* Solid levels of liquidity as measured in days cash on hand and available reserves

* Strong management practices and long-term planning as exemplified by the use of a financial model that predicts debt capacity and cash balances

* Four-county service area of strong credit quality with projected long-term population and employment growth

CHALLENGES

* Uncertainty about the impact of the recently approved toll increase in the context of the economic recession; ability to achieve projected debt service coverage ratios is predicated on acceptance of toll increases from 11 cents to 14.5 cents per mile, a 32% increase

* Pressure from rapidly increasing debt service profile through 2057 to be supported by escalating toll rates

* Relatively weak legal covenants

* Expanding service area will continues create pressure for additional transportation capital improvements and several large-scale capital projects are planned

* Potential construction cost risks, though these have moderated in the current economic environment as labor and commodities prices have declined

RECENT DEVELOPMENTS

In response to weakening traffic and revenue trends, the authority's board has taken proactive steps to stabilize and enhance system revenues through toll increases and adjustments to be implemented starting in September 1, 2009. The toll adjustments are structured to provide a minimum 1.51x DSCR for first tier bonds and a minimum DSCR of 1.26x for first and second tier bonds combined through the forecast period. These coverage ratios assume the issuance of an additional $520 million in first tier bonds for capital project completion over the next five years.

In addition to enhancing revenues for debt service coverage the authority's board aims to create greater consistency across the NTTA system in terms of rates per mile, toll reset dates and Regional Transportation Commission toll policy. The new toll schedule equalizes toll rates for the DNT, PGBT and SRT at 14.5 cents/mile in 2010, and adjusted at a 2.75% annual compounded rate that resets every two years beginning in 2011. Rates on the PGBT EE will increase at 3% per year and will be adjusted every two years beginning in 2011. The toll rate increase represents a sizable, 32% increase in rates for the NTTA system and Moody's has concerns about the potential for greater than anticipated traffic diversion given the unprecedented impact of current economic recession.

Transaction growth for FY 2008 was 7.5%, and though actual revenues were 18.8% above 2007 numbers due to the opening of SRT segment 2, they fell 8.2% below forecasts. The weaker financial performance was attributed to rising gas prices and a softening regional economy. Through May 2009 transactions are down 1.7% on the DNT and 6.3% on PGBT while the SRT continues to ramp up as evidenced by 19.6% increase in transactions for May 2009 compared to September 2008. Going forward the authority's traffic and revenue consultants have recalibrated the forecast based on an updated 2009 regional mobility plan, the impact of economic recession and the new toll rate schedule. Toll revenues are forecasted to increase at an average annual rate of 8.3% from 2010 through 2020 and roughly 4.8% from 2020 through 2030. This compares with the very strong 10.1% annual growth in revenues and 7% transaction growth achieved over the last five years during a period of strong economic expansion in the region.

CURRENT OFFERING PART OF REVISED PLAN OF FINANCE FOR SRT/SH 121 PROJECT

Due to market conditions the amount of variable rate bonds and synthetic fixed rate bonds planned in the authority's February 2008 plan of finance has been significantly reduced. The expected VRDO debt was supplanted with approximately $1.2 billion in put bonds as well as index floaters. As a consequence the interest rate assumptions for the NTTA's overall plan finance plan have been increased to approximately 5.9% overall TIC from 5.2% TIC in February, 2008.

Including the current debt restructuring of the Series 2005C bonds in this transaction and the expected refunding of Series 2008E-1 and Series 2008G put bonds in September 2009 the authority expects to have approximately $1 billion of put bonds outstanding with mandatory tender dates in 2011, 2012, 2013 and 2016. If the authority were unable to remarket the put bonds on these dates, the interest rate would increase to a stepped coupon rate of 12%, and this would significantly weaken the authority's cash flow coverage of debt service and liquidity. Additionally, it is uncertain at what rate the put bonds will be remarketed on the tender dates, and this would also pressure debt service coverage if actual rates are higher than currently forecast. Under the current finance plan the authority also expects to have up to 6% of its total debt in unhedged and uninsured variable rate debt instruments, including the commercial paper notes.

With the reduced amount of unhedged variable rate debt to fund the SRT and other capital projects, projected debt service has increased from 2008 projections. The increased debt service costs combined with weaker traffic growth than previously forecasted result in lower DSCR than previously forecasted. The lowest projected first tier coverage under the base case forecast is now 1.51x and the lowest first and second tier DSCR is now 1.26x compared to 1.4x a year ago. Under a stress scenario assuming all remaining put bonds go to the maximum rate of 12% the DSCR for first tier bonds drops to 1.33x and the first and second tier DSCR to 1.14x, a very low level for an A-rated toll facility.

CONSTRUCTION FOR SYSTEM PROJECTS REMAINS ON SCHEDULE AND WITHIN BUDGET; OFF-SYSTEM PROJECTS IN DEVELOPMENT

The SRT project is currently within budget and ahead of schedule with a phased opening: segment 1 opened in July 2006; segment 2 opened in September 2008; segment 3 was expected to open in January of 2010 but may open as early as October 2009; segment 4 is scheduled to open in January 2011 and the final segment 5 in January 2012. The PGBT EE project construction is under budget with an expected opening in December 2011. The only system project that slightly is the Lewisville Lake Toll Bridge. Due to high water at the lake in 2007 the opening is pushed back 90 days from the August 2, 2009 scheduled completion.

In addition to system projects the NTTA has committed to undertake several non-system projects, including the SH 161 tollway and the Southwest Parkway / Chisholm Trail. On October 15, 2008 the NTTA and TxDOT agreed in principal, subject to a finding of feasibility, to make investments in a standalone financing for the SH 161 project, an 11.5 mile toll road extension of the NTTA's President George Bush Turnpike (PGBT) to IH 20, with access to the new 80,000 seat Dallas Cowboy Stadium scheduled to open in 2009. Preliminary estimates of the project cost are $1.1billion. While TxDOT is expected to guarantee the SH 161 project revenue through toll equity loans subject to development of a detailed agreement, it is not expected to guarantee debt service. The terms of the TxDOT toll equity loan are currently being negotiated. NTTA's board has authorized up to a $400 million for this project that would take the form of subordinated debt secured by the net cashflow to NTTA's Capital Improvement Fund (CIF). NTTA net revenues deposited to CIF are on a last priority basis after all NTTA debt and O&M payments.

The Southwast Parkway/Chisolm Trail would connect IH 30 in the city of Ft. Worth to US 67 to the Southwest for total of 27.3 miles. The estimated cost of the project is upwards of $1.3 billion with the NTTA share as yet uncertain. In 2009 TxDOT allocated $133.9 million in federal stimulus funds allocated to the project. The authority is currently analyzing the optimal method for funding this project including exploring off-system funding opportunities.

Outlook

The negative rating outlook is based on weakening debt service coverage through the forecast period as well as uncertainty regarding the pace of economic recovery and resumption of traffic growth in the region and interest rate risks associated with remarketing $1 billion of put bonds. Moody's expects that NTTA will fund capital projects as budgeted and that the SRT will be completed on time and within budget, new projects will be implemented as needed and debt service coverage will remain above 1.5x for first tier bonds and above 1.25x for first and second tier bonds combined.

What could change the rating - UP

Significantly better than forecasted traffic and revenue growth that contributes to improved debt service coverage and financial margins as system expansion projects are implemented could place positive pressure on the ratings.

What could change the rating - DOWN

A sustained decline in projected traffic and revenue, unfavorable response to the recent toll increase and failure to implement future planned toll increases as expected or significant increases in bond funded capital needs or interest costs could put negative pressure on the rating. Sustained debt service coverage ratios consistently below 1.5x for first tier and below 1.25x for first and second tier bonds could result in a rating downgrade.

KEY INDICATORS

Type of Toll Road: Regional, multi-asset

FY 2008:

Transaction Traffic Volume412,272,003

Annual Toll Revenue $240,776,791

Toll Transactions, 5-year CAGR:6.8%

Debt Service Coverage, FY 2008: 1.6x

DSCR, FY 2009:1.7x

Base Case DSCR:

Lowest projected first tier: 1.51x

Lowest projected first and second tier: 1.26x

Lowest projected all obligations:1.17x

Stress Case (All Put Bonds at Max 12% Rate)

Lowest projected first tier: 1.33x

Lowest projected first and second tier:1.14x

Lowest projected all obligations:1.06x

RATED DEBT (after delivery of these bonds)

Series 1997 - $10.5 million (current interest bonds)

Series 1997A - $44.7 million (current interest bonds)

Series 1998 - $78.9 million (current interest bonds)

Series 2003A - $225 million (current interest bonds)

Series 2005 C - $178.3 million (remarketed to fixed rate)

Series 2008 A-E - $3,039 million (includes $2,009 million of current interest bonds, $430 million of CABs,

$600 million put bond with tender dates of: $210 million in 2010 planned to be refunded in September 2008, $175 million in 2012 and $215 million in 2016, subject to a stepped coupon rate of 12%)

Series 2008 F -$1,000 million [1] (current interest bonds)

Series 2008 H - $409 million (put bonds with tender dates of: $200 million in 2011 and $209 million in 2013, subject to a stepped coupon rate of 12%)

Series 2008 I - $209.8 million (CABs)

Series 2008 J - $100 million (index floaters)

Series 2008 K - $225 million (current interest bonds)

Series 2008 L- $220 million (put bonds with tender dates of: $120 million in 2011 and $100 million in 2013)

Series 2009 A-$360.9 million (current interest BABs)

Series 2009 B-$810 million (current interest bonds)

[1] Second tier.

ISSUER CONTACTS

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Our last report on the North Texas Tollway Authority was on October 21, 2008 when we assigned an A2 rating to the series 2008 revenue bonds and affirmed the A2 and A3 ratings on outstanding first and second tier revenue bonds.

The principal methodology used in rating the authority's bonds was "State and Local Government Owned Toll Facilities in the United States," which can be found at www.moodys.com in the Credit Policy and Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy and Methodologies directory.

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