STANDARD & POOR'S

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Summary:

North Texas Tollway Authority; Toll Roads Bridges

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Summary:

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Credit Profile		
US$810.395 mil first tier sys rev bnds ser 2009B due 01/01/2049		
Long Term Rating	A-/Stable	New
US$360.925 mil first tier sys rev bnds ser 2009A due 01/01/2039		
Long Term Rating	A-/Stable	New
North Texas Tollway Auth		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A-' rating to the North Texas Tollway Authority's (NTTA or the authority) $360.9 million series 2009A first tier tax-exempt current interest bonds and $810.3 million series 2009B first tier taxable current interest bonds. The series 2009B bonds are direct subsidy payment Build America Bonds. The outlook is stable. Bond proceeds will refund all of the authority's outstanding commercial paper (CP) notes and portions of its Dallas North Tollway System (DNTS) revenue bonds series 1997, 1997A, and 1998; refund a portion of its DNTS variable-rate revenue bonds series 2005C; finance certain swap termination payments; fund portions of the Sam Rayburn Tollway (SRT), the President George Bush Turnpike Eastern Extension (PGBT EE) ,and other components of the NTTA system; make a deposit to a debt service reserve fund; pay capitalized interest on a portion of the 2009B bonds; and pay costs of issuance.

At the same time, Standard & Poor's affirmed its 'A-' long-term rating on NTTA's first tier system revenue bonds and its 'BBB+' rating on the $1 billion series 2008F second tier revenue bonds. The 'BBB+' rating reflects the bonds' subordinate payment obligation. The outlook is stable.

In our view, the 'A-' rating on the authority's first tier bonds reflect a highly leveraged system of toll facilities that will have an increased reliance on higher traffic and revenue growth levels to support adequate senior- and subordinate-lien projected debt service coverage under moderate downside stress scenarios.

We believe the rating reflects the following credit strengths:

- The system's role as a regional urban infrastructure provider, with critical transportation linkages within the Dallas-Fort Worth metropolitan area, despite the existence of nontolled alternatives;
- Demonstrated demand for the existing system, particularly the Dallas North Tollway (DNT) System and the President George Bush Turnpike (PGBT). Systemwide average annual growth in transactions and toll revenues during the past five years has been 7.0% and 10.6%, respectively;
- Historically strong demographic and traffic trends and favorable traffic characteristics and projected population

and employment levels that should support the aggressive systemwide tolling regime the authority has adopted;
- Increased system diversification with the SRT toll facility. The authority currently depends on the DNT and PGBT for approximately 48% and 45% of system revenues, respectively. After SRT's ramp-up in 2015, the DNT, PGBT, and SRT are projected to account for approximately 38.5%, 31.7%, and 22.9%, respectively, of total system revenues; and
- A base case financial forecast that shows good first-lien debt service coverage (DSC), which we expect will average 1.66x with a minimum of 1.51x (from 2009 to 2018). Sensitivity tests indicate that the financing plan allows a good degree of flexibility, allowing up to an 18% reduction in net revenues in each year over the base case and still meet first- and second-tier debt service coverage.

The authority's high debt burden from acquiring and constructing the SRT facility offsets these strengths, in our view. After the series 2009 bonds are issued and the subsequent refunding of all of the authority's CP (a third lien obligation) and partial refundings occur of its series 1997, 1997A, and 1998 first tier bonds, NTTA will have approximately $7.1 billion in first- and second-tier system revenue bonds outstanding, of which approximately 86% ($6.1 billion) are first tier bonds and 14% ($1.0 billion) are second tier bonds. NTTA has a limited ability to incur additional parity senior debt at the current rating.

In our opinion, additional concerns include:

- The potential to dilute projected coverage levels by leveraging the existing cash flow to fund additional projects;
- General risks associated with accurately forecasting traffic and revenues on a new tolled facility, particularly one that relies on economic growth, residential, and commercial development as well as ongoing and inflation-indexed toll increases throughout the acquisition term;
- A high overall toll structure that will increase approximately 24.8% to 14.5 cents per mile from 11.7 cents for electronic transactions this fall and that officials expect to increase further;
- The inherent risks related to the ongoing construction and the likely extensions of the authority's existing facilities and other new toll facilities; and
- A dependence on system revenue growth to cover escalating debt service requirements. Net first tier debt service is projected to increase to a peak of $808 million by 2037 from approximately $120 million in fiscal 2009. The projected debt service assumes the issuance of $287 million in current interest bonds in 2011 and $234 million in convertible capital appreciation bonds (CABs) in 2012 with no significant debt accretion with the expectation that CABs (excluding convertible ones) will make up less than 9% of the authority's total debt.

Bondholders benefit from a pledge of net system revenues. The rate covenant requires NTTA to collect tolls so that net revenues in each fiscal year will equal the greatest of 1.35x scheduled debt service requirements on all first tier bonds outstanding; 1.20x scheduled debt service requirements on all first- and second tier bonds outstanding; or 1.00x scheduled debt service requirements on all first-, second-, and third-tier bonds outstanding, and all remaining NTAA obligations secured by net revenues.

The NTTA system consists of the DNT, the Addison Airport Toll Tunnel, the PGBT, the Mountain Creek Lake Bridge, and the Lewisville Lake Toll Bridge (LLTB), and the SRT project (subject to the Texas Department of Transportation [TxDOT's] reversionary interest after 50 years). NTTA is not entitled to collect revenues from the SRT project until the service commencement date for each segment. Segments 1 and 2 have been completed and turned over to the authority for toll collections as of Sept. 2008. Officials expect segment 3 to open ahead of schedule in October 2009. The PGBT EE is under budget and on schedule, with an expected December 2011 opening date. The LLTB is on budget and is expected to open Aug. 2, 90 days behind schedule due to high water at the lake in 2007.

NTTA can also issue CP notes so long as the principal amount outstanding does not exceed $700 million; it may use the proceeds of any CP issuances only for improvements to SRT and other projects. The CP notes are secured as third-tier bonds, and approximately $91 million is currently outstanding. After the issuance of the series 2009 bonds, we expect that no CP notes will remain outstanding.

Officials plan to use a portion of the series 2009A bond proceeds to refund a portion of NTTA's 2005C bonds, and the remaining amount will be remarketed into fixed mode as part of this transaction in August. The series 2005C bonds are insured by Financial Guaranty Insurance Co. (FGIC; not rated) and previously were supported by a standby bond purchase agreement (SBPA) provided by Depfa Bank plc (DEPFA; BBB/Watch Pos/A-2). After we downgraded FGIC below investment-grade levels, DEPFA's obligation to purchase tendered series 2005C bonds terminated, obligating the authority to convert the series 2005C bonds to fixed rate or refund them. The authority intends to use some of the series 2009A bonds proceeds to refund a portion of the series 2005C bonds. We expect approximately $178.3 million of the authority's series 2005C bonds will remain outstanding after the issuance of the series 2009 bonds. The outstanding portion of the series 2005C bonds will be remarketed into fixed-rate mode. More specifically, 100% of 2010-2018 maturities and 25% of the 2019-2025 maturities for the variable-rate series 2005C bonds will be refunded and the remaining 75% of the 2019-2025 maturities ($178.3 million) will be remarketed as fixed-rate bonds during this transaction in August. The 2009A bond proceeds will also finance swap termination payments from partially terminating swaps related to the 2005C bonds. As of July 27, 2009 this termination payment totaled approximately $10 million. We expect the portion of the swap that will remain in effect will synthetically fix, through 2018, 100% of the letter-of-credit backed variable-rate bonds the authority intends to issue in September this year. Starting in 2019, these variable-rate bonds planned to be issued this September will gradually become unhedged as the swap amortizes from 2019 to the beginning of 2025, when it terminates. As a result, these bonds (currently modeled to mature in 2038) will become completely unhedged at the beginning of 2025, unless the authority enters into some other synthetic structure between now and then.

We expect that during the next five years following the issuance of the series 2009A&B bonds, NTTA will issue approximately $521 million of first tier bonds and $400 million of subordinate bonds secured by revenues deposited into the capital improvement fund (CIF). Officials expect the proceeds of such future first tier bonds primarily to finance the completion the SRT and the PGBT EE, while they expect the proceeds of CIF secured bonds to finance a portion of the cost of the development of State Highway 161 (SH 161) and the Southwest Parkway, SWP (TxDOT) and Chisholm Trail Parkway. We expect the bonds payable from the CIF will be subordinate to existing debt obligations secured under the trust agreement and have flexible repayment terms that would not impair the authority's ability to cash fund a portion of its capital needs. NTTA also intends to issue approximately $360 million of additional refunding bonds as either fixed-rate long-term or variable-rate demand bonds, subject to the availability of letters of credit, later this year. These will refund its series 2008E-1 and 2008G bonds, which are subject to mandatory tender on Jan. 1, 2010. From 2011 to 2016, we expect the authority to refund its remaining put bonds, series 2008E, 2008H, 2008J, and 2008L on or before the corresponding mandatory tender dates for each series.

We don't expect the NTTA to add either the SH 161 or the SWP/SWP (TxDOT)/Chisholm Trail Parkway to its system in the foreseeable future. The authority may issue additional debt to finance an upfront payment to TxDOT for SH 161 and SWP/SWP (TxDOT)/Chisholm Trail Parkway, but we don't expect such debt to be issued under the trust agreement or be secured by the NTTA system revenues. We also don't expect revenues from such projects be pledged to the payment of the series 2009 bonds, but that these bonds would instead be issued under separate trust agreements. NTTA has not yet agreed to undertake the SH 161 and the SWP/SWP (TxDOT)/Chisholm Trail Parkway projects. Any final agreement to undertake such projects will be subject to establishing the financial feasibility of such projects.

NTTA has a project agreement completed with TxDOT for the SH 161 project that will be funded with off-system project bonds and Transportation Infrastructure Finance and Innovation Act (TIFIA) with support of a TxDOT toll equity loan. The authority is currently negotiating the toll equity loan and SH 161 project trust indenture with TxDOT. Officials expect financial close this fall. Similar to SH161, NTTA is exploring off-system funding opportunities. Feasibility analysis is ongoing. The authority has committed up to $400 million of CIF subdebt to support these off-system projects. Under the proposal, debt service for the SH 161 project will be structured so that total debt service in each year plus budgeted operations and maintenance expenses (including budgeted major maintenance and capital expenditures) for that year does not exceed 100% of the projected toll revenues for that year. The authority will have to bridge any initial funding shortfalls and to fund any cost overruns or other shortfalls. The current estimate for the initial funding shortfall is approximately $300 million, depending on available financing options. This approximately $300 million will be funded from the $400 million CIF subdebt. In addition, to the extent annual operating and maintenance expenses relating to SH 161 exceed the budgeted amounts, the authority will be responsible for paying such amounts from its capital improvement fund. The authority intends to develop SH 161 if it will not negatively affect ratings on its bonds outstanding or to be issued under the trust agreement. A key factor in determining whether to undertake the project will be the impact on NTTA's credit profile (including expected revenue contribution and ability to service its debt). Notwithstanding this, the authority is spending funds on the SH 161 Project. If the project agreement is executed, we expect it to provide that NTTA will be reimbursed for its expenditures if it later decides not to undertake the project.

The Trinity Parkway will be built as a regional project. The region has funded the geotechnical and design work for this project. NTTA has not committed to the project's funding needs, has cut major spending on this project, and has also cut major spending on the evaluation of SH 170, SH 360, DNT Phase 4, DNT Phase 5, and SH 190 East Branch.

Actual toll revenue for fiscal 2008 was $240.8 million, up 18.8% relative to fiscal 2007, but down 8.2% from the $262 million forecasted for fiscal 2008. The economy, gas prices, higher revenue leakage than expected and increased unemployment rates affected actual revenue for fiscal 2008. First tier debt service coverage for fiscal 2008 was 1.78x, while first- and second-tier debt service coverage was 1.60x.

For five months end May 31, 2009 traffic and revenue increased 11.6% and 10.7%, despite traffic on the DNT and PGBT experiencing a 1.7% and 6.3% drop in traffic and a 0.9% increase in 9.3% decrease in toll revenue, respectively. The increase in traffic and revenue over this five month period is due predominantly to the opening of the SRT. Based on its revised budget, NTTA expects coverage to remain strong. First tier coverage is 1.79x and first and second tier debt service coverage is 1.71x.

In July 2009, the board adopted a toll rate schedule for the NTTA system that reflects a more aggressive tolling regime than previously planned. Under the current toll schedule, the weighted average two-axle TollTag toll rate for the authority's system is approximately 11.7 cents per mile. This will increase 24.8% to 14.5 cents after the increases take effect. NTTA's recently adopted toll rate schedule takes effect Sept. 1, 2009. It expects that the amendment to the SRT Project Agreement will take effect before Sept. 1, and that the amendment to the PGBT EE Project Agreement will become effective before it opens. Rates on the NTTA system (excluding the PGBT EE) will increase 2.75% per year, and will be adjusted every second year starting July 1, 2011. Rates on the PGBT EE will increase 3.00% per year, and will be adjusted every second year starting the same date. While the board will have the option to alter any of the authorized increases, if the board takes no action the rate increases will automatically go into effect.

Overall, Standard & Poor's views the credit as significantly highly leveraged and dependent on growth--both in terms of toll rates and the economic development necessary to support forecast transaction projections--in a region that has demonstrated strong, historically supportive demographic trends. Under various sensitivity analyses that we performed, the projected financial performance demonstrated resiliency under certain downside assumptions. The size and strength of the system and the higher toll setting flexibility it affords can support a highly leveraged profile, assuming toll rates are adjusted accordingly to maintain financial margins. We have incorporated lower traffic and revenue scenarios into the rating; however, should economic conditions erode significantly or the authority delay planned toll increases (resulting in a sustained decline in financial metrics), the rating would face pressure. NTTA has a limited ability to incur additional parity senior debt at the current rating.

The rate covenant reflects the board's longstanding policy of requiring net revenues to be at least equal to 1.35x NTTA's senior obligations. The second tier bonds rate covenant is similar, but the required multiple is 1.20x. The authority can issue additional first tier bonds if the actual net revenues for the preceding fiscal year or for any 12-month period ending not more than 90 days before the date of calculation are at least 1.35x average annual debt service requirements for all first tier bonds (including those proposed to be delivered) and second tier bonds outstanding. It can also issue if the estimated net revenues for the current and each future fiscal year are at least 1.35x debt service requirements for each such fiscal year for all first tier bonds (including the proposed bonds); 1.20x debt service requirements for each such fiscal year for all first tier bonds (including the proposed bonds) and second tier bonds outstanding; and 1.00x debt service requirements for each fiscal year for all first tier bonds (including the proposed bonds), second tier bonds, third-tier bonds, and all other obligations outstanding. The additional bonds test for the second tier bonds is similar.

Outlook

The stable outlook reflects our assessment of demonstrated demand for the system and the favorable demographics that support a more aggressive systemwide tolling regime. The outlook also reflects the assumption that traffic and revenue will be at, or near, projected levels. The size of the system's debt constrains the rating, in our view. Any significant additional parity senior-lien debt beyond what is already planned could result in a downgrade, depending on the structure of the debt issuance and the expected associated revenues.

Related Research

USPF Criteria: "Toll Road And Bridge Revenue Bonds," June 13, 2007

Ratings Detail (As Of July 30, 2009)		
North Texas Tollway Auth first tier index floaters ser 2008J		
Long Term Rating	A-/Stable	Affirmed

Ratings Detail (As Of July 30, 2009) **(cont.)**		
North Texas Tollway Auth first tier rev rfdg bnds ser 2008K		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth first tier rev rfdg bnds ser 2008L		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth first tier sys rev rfdg bnds ser 2008G		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth second tier sys rev rfdg bnds ser 2008F		
Long Term Rating	BBB+/Stable	Affirmed
North Texas Tollway Auth sys rev rfdg 1st tier curr int bnds ser 2008A dtd 04/03/2008 due 01/01/2009-2013 2015-2025 2028 2033 2040 2048		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rd (MBIA) (SEC MKT) (National)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rd 1st tier (MBIA) (National)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth Dallas North Tollway var rate rev bnds ser 2005C		
Long Term Rating	A-/NR/Stable	Affirmed
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth 1st tier (AMBAC) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth 1st tier (ASSURED GTY)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Authority (Dallas North Tollway Sys) toll sys		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys (President G. Bush Tpk)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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