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North Texas Tollway Authority; Joint Criteria; Toll Roads Bridges

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Table Of Contents

Rationale

Outlook

Enterprise Risk Profile

Financial Risk Profile

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Credit Profile

US\$346.825 mil sys 2nd tier rev rfdg bnds ser 2018 due 01/01/2050

Long Term Rating

A/Stable

New

Rationale

S&P Global Ratings raised its long-term rating and underlying rating on the North Texas Tollway Authority's (NTTA) first-tier toll road revenue bonds and second-tier revenue bonds outstanding to 'A+' from 'A' and 'A' from 'A-', respectively. At the same time, S&P Global Ratings assigned its 'A' rating to the NTTA's pro forma \$346.8 million second-tier revenue-refunding bonds, series 2018.

The rating action reflects the application of our revised criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," published March, 12 2018.

As well, S&P Global Ratings affirmed its 'SP-1' rating on NTTA's note purchase agreement program, with the understanding that the authority would refund the program with long-term debt secured by second-tier system revenues. However, to date the authority has not made any draws on the program and does not have any notes outstanding. In addition, S&P Global Ratings affirmed its 'AA+/A-1+' rating on the authority's series 2009D variable-rate revenue refunding bonds, based on the application of joint criteria using low correlation; however, these bonds will be refunded with the issuance of the series 2018 bonds. The outlook is stable.

The ratings reflect the combination of the authority's very strong enterprise risk profile and strong financial risk profile. Our enterprise risk profile assessment incorporates the NTTA's strong traffic trends (despite frequent toll rate increases) due to its important role, strategic location, and lack of significant competition from toll-free roads. Our financial risk profile assessment considers the NTTA's strong revenue growth from biennial toll rate increases and favorable traffic trends that we expect to continue. This will allow the authority to maintain strong financial performance and an adequate capacity to manage its increasing debt service requirements, with level debt service not occurring until 2024.

The very strong enterprise risk profile reflects our view of the NTTA's:

- Very strong market position due to the toll road's strong demand characteristics given its important role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), despite nontolled alternatives;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and below-average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and

- Very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals; detailed financial forecasts that management updates frequently to address material variances; and a very capable staff that has considerable experience operating a statewide tolling agency.

The strong financial risk profile reflects our view of the NTTA's:

- Strong financial performance that we expect to continue due to the authority's history of strong revenue growth from its willingness and ability to increase toll rates frequently and the toll road's favorable traffic trends that, in our view, will allow the NTTA to maintain total debt service coverage ([DSC] S&P Global Ratings-calculated) above 1.25x;
- Adequate debt and liabilities capacity that we expect will continue because the authority counters rising debt service requirements with additional revenue from toll increases, and the lack of additional debt plans, ensuring that its capacity to service its debt will not diminish; and
- Adequate liquidity and financial flexibility based on our expectation that the NTTA's liquidity position--915 days' cash on hand and 5.3% of debt in fiscal 2017--will decline to levels we consider adequate as the authority plans to entirely cash fund its capital improvement plan (CIP), which will include the drawing down of a portion of current unrestricted reserves.

Net revenues of the NTTA toll system secure the authority's toll road revenue bonds. The 'A' rating on the second-tier bonds reflects our view of their subordinate lien on the net revenues. Post-issuance, the NTTA will have approximately \$6.8 billion of first-tier debt and \$2.1 billion of second-tier debt outstanding for a total of \$8.9 billion.

Bond proceeds will refund all of the first-tier 2009D bonds; first-tier variable-rate revenue-refunding bonds, series 2011A; and first-tier revenue-refunding bonds, series 2012C, for estimated interest savings.

The NTTA system consists of the Dallas North Tollway, the Addison Airport Toll Tunnel, the Mountain Creek Lake Bridge, the President George Bush Turnpike (PGBT), the PGBT Eastern Extension, the Lewisville Lake Toll Bridge, the Sam Rayburn Tollway project (subject to the Texas Department of Transportation's reversionary interest after 50 years), the Chisholm Trail Parkway (CTP), and PGBT Western Extension (PGBT WE). The CTP and PGBT WE were previously part of the Special Projects System and were incorporated into the NTTA system in 2017.

Outlook

The stable outlook reflects our opinion that the NTTA will maintain total DSC (S&P Global Ratings-calculated) at or above 1.25x and its financial capacity to manage its rising debt burden will not diminish.

Upside scenario

We do not expect to raise the ratings during the next two years, due to our opinion that the authority will maintain its financial metrics near current levels, including the increasing debt service requirements.

Downside scenario

We could lower the ratings in the next two years if we believe revenue growth needed for the authority to maintain total DSC (S&P Global Ratings-calculated) near 1.25x is not feasible.

Enterprise Risk Profile

Our assessment of the NTTA's enterprise risk profile as very strong reflects the authority's extremely strong economic fundamentals, low industry risk, very strong market position, and very strong management and governance.

Economic fundamentals

The primary service area, the Dallas-Fort Worth-Arlington MSA, has extremely strong economic fundamentals due to favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth and average unemployment levels.

We consider the economy of the MSA broad and diverse. Dallas is a major economic hub in the southern and central part of the country and the region is a desirable location for new businesses, as well as recent locations of corporate headquarters. The MSA is home to 22 Fortune 500 companies, 3,849 company headquarters, and 242 Class A office buildings.

Market position

We consider the authority's overall market position very strong, reflecting its important role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth-Arlington MSA, despite non-tolled alternatives.

Because of the system's important role and strategic location, it has exhibited resilient and favorable traffic trends. From 2008-2016, a period that included the Great Recession, a spike in fuel prices, and frequent rate increases, NTTA traffic levels increased strongly, an average of 11% a year. More recently, in fiscal 2017, 726 million vehicles traveled the system, a record for volume. Traffic volume in fiscal 2017 (year ended Dec 31) was up 2.9% from fiscal 2016, and fiscal 2016 traffic increased 3.9%. Passenger cars account for about 97% of toll revenue and transactions. Toll revenue in fiscal 2017 reached a peak of \$713 million, or an increase of 7.1% from fiscal 2016.

Management and governance

The authority's management and governance, in our opinion, is very strong, reflecting our view of the NTTA's strategic positioning; risk management and financial management; and organizational effectiveness. The management team has considerable expertise and experience due to its long tenure. It provides frequent and high-quality disclosure and maintains a detailed long-range financial forecast.

In addition, management has adopted a variety of financial policies, including an investment policy, a debt management policy, toll rate-setting policy, and an interest rate swap management policy. We consider these types of codified arrangements prudent in managing the NTTA's operations.

Financial Risk Profile

Our assessment of the NTTA's financial risk profile as strong incorporates the authority's strong financial performance, adequate debt and liabilities capacity, and adequate liquidity and financial flexibility. We base our financial profile risk assessment on historical figures, which reflect our expectation that key financial metrics will continue near current

levels. In our analysis, we evaluate the NTTA's updated detailed financial plan that we believe includes reasonable assumptions, and yield results (S&P Global Ratings-calculated) comparable with historical ones. Our financial profile assessment also considers the authority's financial policies, which we view as credit neutral.

Since 2009 and in accordance with the NTTA's board-adopted toll rate policy, the authority has implemented a system-wide toll increase biannually, incorporating 2.75% increases annually, with the most recent increase on July 1, 2017, and will continue every odd year.

The most recent traffic and revenue study by the authority's consultant, in August 2018, estimates that total adjusted gross toll revenue will increase to \$2.3 billion by fiscal 2040 from \$713 million in fiscal 2017, or 4.4% annualized growth, due to a combination of transaction growth and continuation of the bi-annual toll rate increases. In terms of annual transaction growth, the forecast assumes an average growth rate of 1.7% from 2018-2040, which we consider reasonable and achievable based on the toll road system's mature nature and the continued expected growth in the Dallas MSA. Average annual transactions rose 4.3% from 2013-2017. Although the authority expects revenue to increase substantially during the forecast period, we expect it to maintain financial metrics comparable with historical levels.

Financial performance

We view the NTTA's financial performance as strong, which we expect to continue. The assessment incorporates our expectation that the authority will maintain total DSC, as per our calculations, at or above 1.25x, the NTTA's demonstrated willingness and ability to raise tolls as necessary to meet or exceed projections, and its resilient and favorable traffic trends.

From 2008-2017, a period that included the Great Recession, a spike in fuel prices, and frequent rate increases, toll revenues increased substantially to \$713 million in 2017 from \$241 million in 2008, with an average annual growth rate of 20.5%.

Average total DSC, as per our calculations, for fiscal years 2015-2017 is near 1.31x. Our DSC calculations include the authority's audited financial results reported on a GAAP basis, adding total operating revenues, interest income, subtracting total operating expenses net of depreciation, and then dividing by the combined annual debt service of the NTTA's first-tier, second-tier, Intermodal Surface Transportation Efficiency Act loan payments, and the subordinate-lien debt service. Calculating DSC as per the indenture, DSC for first-tier and second-tier revenue bonds is 1.94x and 1.62x, respectively, for fiscal 2017. The authority's rate covenant is to maintain DSC of no less than 1.35x on the first tier, and 1.20x on the combined first tier and second tier.

For the NTTA to maintain DSC (S&P Global Ratings-calculated) at its projected levels through the forecast, it will have to continue relying on growth in toll revenue due to toll increases and modest growth in traffic, which we believe is attainable given the authority's demonstrated ability and willingness to increase tolls, and favorable traffic trends.

Debt and liabilities capacity

The NTTA's debt capacity, in our view, is adequate and we expect this to continue and improve because the authority has no additional borrowing plans. The NTTA's debt to net revenues in fiscal 2017 is 18.5x, and we expect it to remain below 20x due to additional revenue from planned toll rate increases and transaction growth, as well as the lack of

additional debt added to the system. The NTTA's five-year 2018-2022 CIP totals about \$1.5 billion. The NTTA plans to cash finance all of its CIP with a combination of current restricted and unrestricted reserves, as well as future excess cash flow. Although we don't expect it, the authority may use its commercial paper note program to finance the CIP, if cash flow from the NTTA system is not sufficient to make the deposits.

The authority has swaps totaling \$178 million with Citibank N.A and JPMorgan Chase Bank N.A. as counterparties. The swaps were executed to create a synthetic fixed rate when combined with floating-rate debt. The swaps had a negative fair market value of \$14 million as of June 30., 2018, meaning the NTTA would owe a payment to the swap providers if they were canceled. The authority is not required to post collateral; however, that changes if our rating on the senior debt falls below 'A-', or 'A3' from Moody's Corp.. In addition, the swaps[?] can be terminated if we lower the ratings on the authority below investment-grade levels ('BB+' or lower). However, the series 2018 bonds will refund all of the 2009D bonds and the authority will make a swap-termination payment of \$11.8 million in conjunction with the refunding and the swaps will be terminated.

Liquidity and financial flexibility

In our assessment of the NTTA's adequate liquidity and financial flexibility, we consider the authority's audited fiscal year-end 2017 (Dec 31) unrestricted cash and investments balance of almost \$539 million (915 days' cash on hand and 5.3% of debt), which we consider strong. However, we expect the NTTA's liquidity and financial flexibility will decline to levels we consider adequate as the authority plans to entirely cash fund its CIP, which will include the drawing down of a portion of current unrestricted reserves.

Ratings Detail (As Of September 20, 2018)

North Texas Tollway Authority 1st tier		
<i>Long Term Rating</i>	A+/Stable	Upgraded
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (ASSURED GTY)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (MBIA) (National)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A/Stable	Upgraded
North Texas Tollway Auth sys 1st tier rev rfdg bnds ser 2016A due 01/01/2039		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth sys 1st tier (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth sys 1st tier (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded

Ratings Detail (As Of September 20, 2018) (cont.)

North Texas Tollway Auth toll rds br (BAM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds br (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth CP ser A		
<i>Short Term Rating</i>	SP-1	Affirmed
North Texas Tollway Auth Sys First Tier Rev Rfdg Bnds		
<i>Long Term Rating</i>	A+/Stable	Upgraded
North Texas Tollway Auth Sys 2nd tier (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth TOLLFAC		
<i>Long Term Rating</i>	A+/Stable	Upgraded
<i>Unenhanced Rating</i>	NR(SPUR)	Current
North Texas Tollway Auth (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth (North Texas Tollway Auth) JOINTCRIT		
<i>Long Term Rating</i>	AA+/A-1+	Current
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth () TOLLFAC (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A+/Stable	Upgraded
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A+/Stable	Upgraded
North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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