

Rating Action: Moody's revises North Texas Tollway Authority's outlook to positive from stable; assigns A1 to 1st Tier Toll Revenue Refunding Bonds, Series 2022A, A2 to 2nd Tier Toll Revenue Refunding Bonds, Series 2022B; affirms outstanding ratings

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Approximately \$9.34 billion of debt affected

New York, August 25, 2022 -- Moody's Investors Service has assigned an A1 to North Texas Tollway Authority, TX's (NTTA) \$475 million 1st Tier Toll Revenue Refunding Bonds, Series 2022A and A2 to the Authority's \$178 million 2nd Tier Toll Revenue Refunding Bonds, Series 2022B. Concurrently, Moody's affirmed the A1 rating on \$6.59 billion parity 1st tier revenue bonds, the A2 rating on \$2.57 billion 2nd tier revenue bonds, the Baa1 rating on \$48.9 million subordinate lien bonds, and the MIG 1 rating on the \$200 million revenue notes. The outlook was revised to positive from stable.

RATINGS RATIONALE

All ratings are based on the NTTA's essential roadway network located in one of the fastest growing US service areas that will experience continued traffic growth and combined with automatic biennial toll increases will produce strong revenue growth. NTTA's adherence to its biennial toll rate increase policy through the pandemic also supports the ratings. Debt service coverage ratios (DSCR) on all obligations will remain adequate between 1.4x and 1.5x over the next four years if NTTA's consultant's forecast is met but will then begin to steadily increase when annual debt service requirements level off in 2026. The authority maintains ample liquidity that mitigates risks of traffic declines if future variants arise and also fully funds the authority's current capital plan.

NTTA's high leverage weighs on the rating but will moderate as annual amortization increases with growing revenue. Leverage will moderate to 9.3x adjusted debt to operating revenue at the end of 2022 from pandemic era highs and continue to decline, absent any additional debt to fund projects outside of NTTA's current capital improvement plan.

The A1 first tier rating is based on the senior security pledge and expected DSCR of 2.1x in 2022. The A2 second tier rating is based on the second tier pledge of revenue and weaker debt service reserve requirement. Baa1 of the subordinate lien rating reflects higher total debt service coverage and ample balances in the capital improvement fund (CIF) to support payment of the obligations. The Baa1 rating on subordinate debt additionally reflects the lack of a pledge of revenue and no debt service reserve.

The MIG 1 rating on the revolving notes, which would likely be repaid with the proceeds from bonds if drawn, is based on NTTA's A1 long-term rating.

RATING OUTLOOK

The positive outlook reflects Moody's expectation that the North Texas economy will remain strong despite expectations of slowing US economic growth and support toll revenue growth that pushes debt service coverage ratios higher and leverage lower over the next few years.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained and projected DSCR of first and second tier bonds above 1.5x
- Leverage, as measured by debt to operating revenue, below the 9.5x
- The MIG 1 short term rating is the highest rating and cannot be upgraded.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional debt issuances or revenue declines that lead to sustained DSCR of first and second tier bonds

below 1.3x

- Lower than expected video toll enforcement and collections
- Failure to implement planned toll increases necessary to produce projected debt service coverage levels
- Traffic and revenue growth no longer exceeds current projections

LEGAL SECURITY

The NTTA bonds are secured by net system revenues, with first tier having a priority claim, followed by the second tier and the CIF bonds that are secured only by balances in the CIF. The rate covenant in the amended and restated trust agreement dated April 1, 2008 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 of all outstanding obligations. The first-tier bonds are additionally secured by a DSRF equal to average annual debt service and the second tier DSRF equal to one-half of average annual debt service. Notes, if drawn, would be pari passu with second tier obligations.

USE OF PROCEEDS

The Series 2022A Bonds are being used to refund eligible First Tier Revenue Refunding Bonds, Series 2015B and System Revenue and Refunding Bonds First Tier Bonds, Series 2017A. The Series 2022B Bonds are being used to refinance the Intermodal Surface Transportation Efficiency Act (ISTEA) Loan for savings and refund eligible System Revenue and Refunding Bonds Second Tier Bonds, Series 2017B for savings.

PROFILE

NTTA manages a well-established multi-asset tollway system in the Dallas-Fort Worth MSA. Assets include two bridges, one tunnel and five highways, approximately 151 center lane miles in length and with 1,145 lane miles. Traffic is predominantly two axle passenger cars with only 2.7% multi-axle vehicles.

METHODOLOGY

The principal methodology used in the long-term ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at <https://ratings.moodys.com/api/rmc-documents/60219>. The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at <https://ratings.moodys.com/api/rmc-documents/67339>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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