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## Summary:

# North Texas Tollway Authority; Toll Roads Bridges

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## Summary:

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### Credit Profile

US\$480.33 mil sys rev rfdg 1st tier bnds ser 2022A due 01/01/2040		
<i>Long Term Rating</i>	AA-/Stable	New
US\$186.855 mil sys rev rfdg second tier bnds ser 2022B due 01/01/2029		
<i>Long Term Rating</i>	A+/Stable	New
North Texas Tollway Auth toll rds & br		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
North Texas Tollway Auth tol rds & br		
<i>Long Term Rating</i>	A+/Stable	Upgraded

### Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on North Texas Tollway Authority's (NTTA) first-tier toll road revenue bonds to 'AA-' from 'A+' and its long-term rating and SPUR on NTTA's second-tier revenue bonds outstanding to 'A+' from 'A'.
- S&P Global Ratings assigned its 'AA-' long-term rating to NTTA's pro forma \$480.33 million first-tier revenue refunding bonds, series 2022A; and its 'A+' rating to the authority's pro forma \$186.855 million second-tier revenue refunding bonds, series 2022B.
- The outlook is stable.
- The rating actions reflect a very strong enterprise risk profile, a strong financial risk profile, and a positive holistic analysis adjustment.

### Security

Net revenues of the NTTA toll system secure the authority's toll road revenue bonds. The first-tier series 2022A bond proceeds will be used to refund a portion of NTTA's series 2015B and 2017A first-tier revenue refunding bonds; the second-tier series 2022B bond proceeds will be used to refund a portion of NTTA's series 2017B second-tier revenue refunding bonds, to refinance the authority's Intermodal Surface Transportation Efficiency Act loan with the Texas Department of Transportation (TxDoT), and to make a deposit to the shared second-tier debt service reserve fund.

As of June 30, 2022, NTTA had about \$9.34 billion in debt outstanding, consisting of \$6.6 billion of first-tier bonds, \$2.7 billion of second-tier bonds, and about \$50 million of subordinate-lien bonds. Approximately 10% of NTTA's total debt consists of first-tier capital appreciation bonds. NTTA also has a \$200 million credit facility available, if needed, to fund capital needs on an interim basis. The credit facility is done under NTTA's revolving notes program. Currently, NTTA has executed a noteholder agreement with Royal Bank of Canada under the program. Under the agreement, the commitment expires Dec. 14, 2024, unless NTTA elects to extend it. We consider the contingent-liquidity exposure

related to this agreement low and manageable. No debt is currently outstanding under NTTA's revolving note program. NTTA has no variable-rate debt or swaps outstanding.

### **Credit overview**

The rating actions reflect a very strong enterprise risk profile, a strong financial risk profile, and a positive holistic analysis adjustment to accurately reflect the overall creditworthiness of the NTTA, which is a very large regional urban system (with approximately 814 million and \$899 million system transactions and toll revenues, respectively, in 2021) that is predominantly used by passenger cars. The system has experienced generally favorable traffic trends historically, a strong rebound in system traffic levels recently, and has demonstrated strong rate-setting flexibility with a long history of biennial toll rate increases that has produced good revenue trends through different economic cycles to maintain financial margins. Since June 2021, NTTA's monthly toll transactions have been near or above 100% of 2019 levels, allowing the system to achieve future financial metrics consistent with historical results. The long-term rating on the second-tier bonds reflects our view of their subordinate lien on the net revenues.

The NTTA system consists of the Dallas North Tollway (DNT), the Addison Airport Toll Tunnel, the Mountain Creek Lake Bridge, the President George Bush Turnpike (PGBT), the Lewisville Lake Toll Bridge, the Sam Rayburn Tollway (SRT) project (subject to the TxDOT's reversionary interest after 50 years), the Chisholm Trail Parkway, PGBT Western Extension (PGBT WE), and the 360 Tollway that was fully incorporated into the NTTA system in 2021.

Our financial risk profile assessment of NTTA considered historical financial and operational results (table 1) and an updated traffic and revenue study done in connection with this bond issue, which reasonably assumes continuation of routine systemwide toll rate increases; system toll transactions increasing 2.9%, on average, per year; and system toll revenues increasing 5.6%, on average, annually from 2023 to 2027. Growth assumptions for system transactions are predominantly based on continued favorable service area demographic trends, the opening of new DNT ramps in 2023, and recently completed expansions on PGBT and SRT. We expect NTTA's debt will fluctuate, depending on how much is outstanding under its \$200 million revolving notes and \$200 million commercial paper programs. As of June 30, 2022, NTTA's unaudited unrestricted cash reserves totaled approximately \$773.9 million.

Key credit strengths, in our opinion, reflect NTTA's:

- Very strong market position due to the toll road's important role as a regional urban infrastructure provider, with critical transportation links in the expanding Dallas-Fort Worth-Arlington (DFW) metropolitan statistical area (MSA), despite the existence of non-tolled alternatives;
- Strong financial risk profile, reflective of coverage, debt capacity, and a liquidity position (S&P Global Ratings-calculated) we expect will be maintained at strong levels --above 1.25x coverage, 10x-15x debt to EBIDA, and liquidity of more than 800 days' cash on hand and less than 7.5% of debt--because of regularly scheduled toll rate increases, generally favorable traffic trends, and no new-money borrowing needs; and
- Very strong management and governance, reflecting its history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently to address material variances, and very capable staff that has considerable experience operating a regional tolling agency.

Key credit weaknesses, in our view, are:

- A \$1.5 billion fiscal 2022-2026 capital improvement program that will be funded from cash on hand, cash flow from operations, and potentially short-term notes or commercial paper on an interim basis; and
- Rising annual debt service requirements, with the bulk of the annual increases in all-in debt service occurring through 2024, then leveling off near maximum annual debt service in 2029, requiring continued growth in revenues to maintain financial margins.

### **Environmental, social, and governance**

We evaluated NTTA's environmental, social, and governance risks and opportunities relative to its market position, management and governance, and financial performance and view all as neutral in our credit rating analysis. Health and safety risks stemming from the COVID-19 pandemic have abated and are not viewed as a material factor in our credit rating analysis. In part, our rating action and our view of NTTA's long-term credit stability is underscored by favorable demographic trends and economic growth within the DFW MSA and represents a social opportunity that generates demand for the system.

### **Stable Outlook**

The stable outlook reflects our expectation that the high and relatively price-inelastic demand for authority facilities during our two-year outlook period will allow NTTA the flexibility to raise tolls as needed to ensure continued strong financial performance.

### **Downside scenario**

We could lower the rating if the authority is unable to adjust revenues, expenses, and capital spending to maintain financial metrics consistent with a strong financial risk profile. This could include not increasing toll rates as planned or restrictions on toll increases that negatively affect steady financial margins, or if traffic levels trend weaker than expected, suggesting characteristics consistent with a lower rating.

### **Upside scenario**

We are unlikely to raise the rating during the two-year outlook period, given NTTA's reliance on increasing revenues to maintain steady financial margins.

### **Credit Opinion**

In our opinion, the DFW region's economic performance and therefore, NTTA's traffic trajectory in 2022 is expected to exceed national trends. S&P Global Ratings believes that currently, economic momentum will likely protect the U.S. economy from recession in 2022. But, with supply-chain disruptions worsening as the weight of extremely high prices damage purchasing power and aggressive Federal Reserve policy increases borrowing costs, economic impacts are likely in 2023. Our U.S. GDP growth forecast is 2.4% for 2022 and 1.6% for 2023 (compared with 2.4% and 2.0%, respectively, in May 2022) and, while our baseline signals a low-growth recession, we believe the likelihood of a contraction or technical recession are rising--to 40% (35%-45% band) The wider band reflects increased uncertainty over the Russia-Ukraine conflict. Supply-chain disruptions, worsened by the Russia-Ukraine conflict and the China slowdown, remain the largest stumbling block for the U.S. economy. As inflation expectations become more

entrenched, extreme price pressures will likely last well into 2023. We expect the unemployment rate, at 3.6% in May and just over its pre-pandemic level, will remain near that rate until early 2023 before rising to top 4.3% by the end of 2023 and climb over 5.0% by the end of 2025 as the economy slows. The Federal Reserve is now likely to push rates from zero at the beginning of the year to 300 basis points by year-end and reach 3.50%-3.75% by mid-2023. The Fed will keep monetary policy tight until inflation decelerates and nears its target in second-quarter 2024. We expect the Fed will start to cut rates in third-quarter 2024. Our lower GDP and inflation forecasts for 2023 and 2024 reflect this more aggressive policy stance. See "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," June 27, 2022.

### North Texas Tollway Authority, Texas--Financial And Operating Data

	--December 31--				
	2021	2020	2019	2018	2017
<b>Financial performance</b>					
Total operating revenue (\$000)	925,283	748,579	959,032	909,184	762,164
Plus: other committed recurring revenue sources (\$000)(1)	19,680	19,660	23,707	27,123	27,022
Less: total O&M expenses excluding noncash expenses (\$000)	230,514	237,503	238,833	207,879	215,004
Numerator for S&P Global Ratings' coverage calculation (\$000)	714,449	530,736	743,906	728,428	574,182
Total debt service (\$000)(2)	522,135	603,113	552,074	543,749	413,853
Denominator for S&P Global Ratings' coverage calculation (\$000)(3)	541,815	622,773	575,781	570,872	440,875
S&P Global Ratings-calculated coverage (x)(4)	1.3	0.9	1.3	1.3	1.3
<b>Debt and liabilities</b>					
Debt (\$000)	9,573,394	9,501,217	9,314,895	9,495,369	9,533,055
EBIDA (\$000)	694,769	511,076	720,199	701,305	547,160
Debt to EBIDA (x)	13.8	18.6	12.9	13.5	17.4
<b>Liquidity and financial flexibility</b>					
Unrestricted cash and investments (\$000)	902,484	910,172	752,358	550,021	538,860
Unrestricted days' cash on hand (excluding credit facilities)	1,429.0	1,398.8	1,149.8	965.7	914.8
Available liquidity to debt % (excluding credit facilities)	9.4	9.6	8.1	5.8	5.7
<b>Operating metrics - toll road</b>					
Total toll revenue (\$000)	898,654	714,036	886,843	841,491	712,551
Toll transactions (000)	813,939	653,498	850,880	831,025	725,982

Data above sourced or derived from NTTA financial audits. O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. (1) Refers to BAB subsidy payments. (2) Includes NTTA first tier, second tier, ISTEAL loan, and other subordinate lien debt service payments. (3) Includes net debt service, adding back BAB subsidy payment. (4) Exclude use of \$150 million of unrestricted liquidity to pay a portion of NTTA's 2020 debt service payment. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of August 31, 2022)		
North Texas Tollway Auth toll rds & br <i>Long Term Rating</i>	AA-/Stable	Upgraded
North Texas Tollway Auth toll rds & br <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & ASSURED GTY) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & BHAC) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & BHAC) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (AGM) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (AGM) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (ASSURED GTY) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) <i>Unenhanced Rating</i>	AA-(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) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT) <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

## Ratings Detail (As Of August 31, 2022) (cont.)

North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (BHAC) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (MBIA) (National) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds & br (AMBAC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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