MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A2 to North Texas Tollway Authority's, TX $341.1 million first tier Series 2014A and A3 to $142 million second tier Series 2014B revenue bonds; Outlook stable

Global Credit Research - 24 Oct 2014

Authority has $7.62 billion system debt outstanding

NORTH TEXAS TOLLWAY AUTHORITY, TX
Toll Facilities
TX

Moody's Rating

ISSUE		RATING
Second Tier Revenue Bonds, Series 2014B		A3
Sale Amount	$142,000,000	
Expected Sale Date	10/30/14	
Rating Description	Revenue: 501c3 Secured General Obligation	
First Tier Bonds, Series 2014A		A2
Sale Amount	$341,100,000	
Expected Sale Date	10/30/14	
Rating Description	Revenue: 501c3 Secured General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, October 24, 2014 --Moody's Investors Service assigns an A2 to $341.1 million first tier Series 2014A bonds and an A3 to $142 million second tier Series 2014B revenue bonds of the North Texas Tollway Authority (NTTA). Moody's maintains the A2 on $6.22 billion outstanding first tier, the A3 on $1 billion second tier and the Baa3 on the $400 million Capital Improvement Fund (CIF) subordinated system bonds. All bonds carry a stable outlook.

Summary Rating Rationale

The ratings are based on the NTTA's essential roadway network in a growing service area; stable financial metrics supported by automatic biennial toll increases and organic traffic growth; no currently planned additional debt; very high leverage and reasonable assumptions underpinning forecast traffic and revenue growth. The forecast is based on actual and expected population, housing and employment growth in the expanding service area and which supports the system's ability to maintain operations and debt service coverage (DSCRs) at current levels, with annual toll rate increases of 2.75%. We note that while the latest full traffic and revenue forecast in March 2014 lowered the traffic and revenue growth rates, the most recent update in connection with this bond issue revises upward the forecast based on actual traffic performance and recent economic trends in the service area. The upward forecast revision is based on better than actual forecast traffic and revenue performance in 2014 through August and on-going employment and GDP growth in the Dallas-Fort Worth service area.

At A2 and A3 the senior and junior bond ratings reflect high leverage. Debt to operating revenue of over 13.76 in FY 2013, though improved from 14.9 times in FY 2012, remains among one of the highest in the rated peer group of government-owned toll roads. Assuming no additional debt-funded project we expect NTTA's high leverage will continue to moderate in coming years with increased revenue growth from traffic and toll increases.

Outlook

The outlook for NTTA is stable, and incorporates the multi-asset nature of the system and its resilience through the economic recession. Recent trends in traffic and revenue are positive despite some remaining challenges in video toll collections. The stable outlook is based on the expectation that net revenues will be sufficient to meet DSCR of at least the management target of 1.5 times for senior debt and in the range of 1.15 times on all debt including the deeply subordinated Intermodal Surface Transportation Efficiency Act (ISTEA) loan and CIF bonds.

What Could Change the Rating Up

The rating is well placed in its rating category given its strong market position and growth. NTTA also has expansion projects planned to further support the transaction growth. These projects will be supported by system net revenues. The rating is countered by high leverage, an escalating debt service profile, and high though moderating leakage for video tolls.

What Could Change the Rating Down

Lower than currently forecasted traffic and revenues would exert negative rating pressure given the dependence on growth to meet rising debt service costs and also could be pressured by lower recoveries of video toll collections. Failure to implement planned biennial toll increases necessary to produce projected debt service coverage levels also could exert downward rating pressure.

Transaction: Proceeds of the Series 2014A first tier bonds will refund a portion of the authority's first tier current interest bonds, Series 2008 bonds and the Series 2014B second tier bonds will refund a portion of the Series 2008F second tier bonds. The refundings are currently estimated to yield net present value interest savings of $57.8 million or 11.7% of refunded par on a net present value basis with no extension of final maturities.

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 Capital Improvement Fund (CIF) bonds that are secured only by balances in the CIF, with balances of $114.9 million as of August 31, 2014, $24.1 million of which is restricted for CIF debt service. 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 debt service reserve fund (DSRF) equal to average annual debt service (currently $358.37 million and second tier reserve equal to one-half of average annual debt service (currently $43.1 million).

Interest Rate Derivatives: The NTTA has two interest rate swaps outstanding with Citibank and JP Morgan Chase. The combined notional amount of the swaps is $178.2 million and the mark-to market as of October 17, 2014 was negative $31.2 million.

Detailed Credit Discussion/Recent Developments

Strengths

*Strong Dallas-Fort Worth service area economy continues to grow faster than the national average generating traffic growth, with sizeable new employers such as Toyota headquarters continuing to relocate to the area

*Traffic for FY 2013 grew 4.3% compared to the previous year, while toll revenue increased 10.2% due to the biennial toll increase of 5.5%. Through August 2014 traffic growth of 4.7% is above the March 2014 forecast

*Construction risk for system projects is minimal as all main components are open and fully operational. Current capital needs for existing roads consist mainly of system maintenance and rehabilitation and some staged lane additions or extensions

*Strong tolling policy implements increases which grow based on set annual rates and depend on willingness and ability to increase toll rates *Historically adequate DSCRs with actual results ahead of forecast with DSCRs on first tier bonds above 1.5 times

*Annual engineering report of 2014 found system to be in good repair and condition with routine maintenance covered by annual deposits to Operating and Maintenance (O&M) and Reserve Maintenance funds (RMF)

*Strong and increasing liquidity with over 859 days cash on hand in FY 2013

Challenges

*Adequate DSCR for steeply rising debt service through 2037 is dependent on achieving projected increases in traffic and annual toll rate increases

*Toll tag penetration and collections for the video tolling or ZipCash transactions continue to be relatively low, but improving

*Expanding service area could pressure NTTA to undertake additional capital improvements, though the authority has opted out of several TxDOT projects and would likely fund additional projects through a separate, stand-alone system, that is outside the NTTA System revenue pledge

Bolstered by a strong service area economy toll transactions grew 4.3% in FY 2013 and revenues grew 10.2%, 8.6% above the July 2013 traffic consultant's forecast. Through August 2014 transactions are up 4.7% over the prior year 8-month period and 2.3% over the forecast. Toll revenues increased 10.4% over the prior 8-month period and are also above forecast.

Through August 2014 transactions up 4.7% over the prior year eight-month period. Toll revenues increased 10.4% over the prior 8-month period and are 10.6% over the traffic engineers (CDM) forecast from July 2013. This follows transaction growth of 4.3% in FY 2013 and revenue growth of 10.2%, which was 8.6% above CDM forecast. Due to better than actual forecasted results and recent favorable economic trends in the service area the October 2014 update to the CDM traffic and revenue forecast revises the forecast upward. The updated forecasts for toll transactions are 2.3% and 2.4% higher for FYs 2014 and 2015 and the revenue forecasts are 1.7% and 2.3% higher, respectively. Transaction growth is mainly due to a strong service area economy and growth on the Sam Rayburn Tollway (SRT) and the Dallas North Tollway north of SRT as well as continued traffic ramp-up following the opening of President George Bush Tollway Eastern Extension (PGBT-EE) in December 2011.

Through August 2014 operating and maintenance expenses are trending down 13.6% from the prior year and total unrestricted funds increased to $318 million in August 2014 compared to $291 million in August 2013. The authority expects to exceed budgeted FY 2014 DSCR of 1.5 times for first tier and 1.2 times for first and second tier bonds. Through August 2014 DSCRs are 1.54 times for first tier and 1.43 times for second tier bonds.

According to Moody's Economy.com the already strong Dallas economy grew at an above-average rate again in the first half of 2014, seeing gains mostly in construction, professional services and information technology services. The Dallas-Fort Worth area annual GDP was up 4.2% in the second quarter of 2014 and the unemployment rate has declined to 5.1%, which is below the national average of 6.2%. Professional services are expanding with the recent relocation of Toyota Financial Services to Plano from California. Additionally, house prices have passed their pre-recession peak. Strong migration to the area is a result of the strong job market and high unemployment rate. Travel and hospitality are up around 6% respectively with the Dallas-Fort Worth International Airport (A2, stable) expanding activity as the main driver following the American Airlines-US Airways merger.

A strength of the system is the automatic toll rate increases every two years, on July 1, to produce an annual rate increase of 2.75%. Going forward, toll transaction and revenue growth are expected to increase in line with population, housing and employment growth in the Dallas MSA. The revenue growth continues to be somewhat tempered by challenges in collections of video tolling transactions, which are expected to continue to increase, given that an all electronic tolling (AETC) system is able to attract more, if infrequent, users.

Due to enhanced tracking and enforcement mechanisms video toll collections reportedly have improved in FY 2013, with net leakage at 8.5% compared to over 16% in FY 2011. For 2014 the target is 7.5%.The A2 rating should be able to absorb the continued challenges presented by the collection of Zipcash (video tolling) transactions, in part given the slight uptick in toll tag penetration in the last year and improvement in the collections of such funds.

The 2015-2019 capital improvement plan (CIP) totals $845 million and includes all major maintenance and rehabilitation requirements as well as corridor expansion projects, including DNT 4th lane improvements from PGBT north to SRT and bottleneck improvements at the DNT/PGBT interchange that are anticipated to be open to traffic at the beginning of 2018, and the PGBT widening between IH 35E and SH 78 that is anticipated to be completed in stages between 2016 and 2019. The CIF and reserve maintenance fund (RMF) are expected to provide much of the funding, supplemented by cash flow. If cash flow is not sufficient interim financing for the CIP will be provided by the authority's $200 million commercial paper program or; from future CIF deposits, or proceeds from additional bonds first or second tier bonds. As of August 14, 2014, the authority had on deposit approximately $38.9 million in the RMF and $41 million in the CIF for those projects with additional financing through cash flow. These are in addition to construction fund balances of $74.7 million and $114.9 million in the CIF.

KEY INDICATORS:

Transactions 2013: 610.130 million

Transactions 2012: 585.051 million

5 Year CAGR, 2013: 8.16%

Toll Revenue 2013: $571.539 million

Toll Revenue 2012: $485.463 million

Bond Resolution DSCR 2013:

First Tier DSCR 1.64x

Second Tier DSCR 1.38x

Total DSCR: 1.26x [1]

2013 Debt to Operating Revenue, 13.76x

Debt Outstanding:

First Tier: $6.2 billion

Second Tier: $1 billion

Subordinate: $400 million

[1] Includes CIF and ISTEA debt service payable from CIF funds.

METHODOLOGY SCORECARD FACTORS:

Factor 1a Asset Type: A

Factor 1b Operating History: Aa

Factor 1c Competition: A

Factor 1d Service Area Characteristics: Aa

Factor 2a Annual Traffic: Aaa

Factor 2b Traffic Profile: Aaa

Factor 2c Five-Year Traffic CAGR: Aaa

Factor 2d - Ability and Willingness to Increase Toll Rates: Aa

Factor 3a Debt Service Coverage Ratio: Ba

Factor 3b Debt to Operating Revenue: Caa

Factor 4a Capital Needs: Aa

Factor 4b)Limitations to Growth: A

Notching Factors

1.Debt Service Reserve Fund Levels: 0

2.Open/Closed Flow of Funds: -0.5

3.Days Cash on Hand: +1.0

4.Other Financial, Debt and Operational Factors: -0.5

Scorecard Outcome: A2

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The principal methodology used in this rating was Government Owned Toll Roads published in October 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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