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Summary:

North Texas Tollway Authority; Toll Roads Bridges

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Summary:

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Credit Profile		
US$350.475 mil Sys First Tier Rev Rfdg Bnds ser 2014A due 01/01/2025		
Long Term Rating	A-/Stable	New
US$149.06 mil Second Tier Sys Rev Rfdg Bnds ser 2014B due 01/01/2031		
Long Term Rating	BBB+/Stable	New
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Authority 2nd tier		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to the North Texas Tollway Authority's (NTTA or the authority) $350.5 million series 2014A first-tier system revenue refunding bonds and its 'BBB+' long-term rating to the authority's $149.1 million series 2014B second-tier system revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'A-' long-term and underlying rating (SPUR) on NTTA's $6.2 billion first-tier system revenue bonds and its 'BBB+' long-term rating on the authority's $1 billion second-tier revenue bonds. The outlook is stable.

The 'A-' rating on the authority's first-tier bonds reflects our view of the highly leveraged system of toll facilities that increasingly relies on higher traffic and revenue growth levels to support adequate senior- and subordinate-lien projected debt service coverage under moderate downside stress scenarios. The 'BBB+' rating reflects our view of the second-tier bonds' subordinate status.

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 PGBT Eastern Extension (PGBT EE), the Lewisville Lake Toll Bridge, and the Sam Rayburn Tollway (SRT) project (subject to the Texas Department of Transportation's reversionary interest after 50 years).

The 'A-' rating further reflects what we consider to be the following credit strengths:

- The system's role as a regional urban infrastructure provider, with critical transportation links within the Dallas-Fort Worth metropolitan area, despite nontolled alternatives;
- Demonstrated demand for the existing system, particularly the DNT and the PGBT, with systemwide average annual growth in transactions at 8% and toll revenues at 17% from 2008 to 2013;
- Historically strong demographic trends and favorable traffic characteristics, with projected population and employment levels that should support the systemwide tolling regime the authority has adopted;
- Increased system diversification with the SRT toll facility, which management projects will account for

approximately 23% of system revenues after its ramp up in 2015, at which time the DNT and PGBT will account for approximately 36% and 34% of system revenues, respectively; and
- A base-case financial forecast with good first-tier debt service coverage (DSC) that ranges from 1.53x to 1.68x from 2014 to 2020.

The authority's high debt burden and escalating debt service schedule offsets these strengths, in our view. NTTA has approximately $7.6 billion in first-tier, second-tier, third-tier, and subordinate debt outstanding, approximately 82% ($6.2 billion) of which are first-tier system revenue bonds. In addition, the authority has $1 billion in second-tier debt and the authority issued $400 million of subordinate bonds, which are secured by net revenues in the capital improvement fund (CIF) bond payment account.

In our opinion, additional credit risks include:

- General risks associated with accurately forecasting traffic and revenues;
- Dependence on system revenue growth to cover escalating debt service requirements; based on the authority's current financial projections, total net debt service (net of a Build America Bond -- BAB -- subsidy payment) will increase to a peak of approximately $704 million by 2036 from approximately $365 million in fiscal 2014.
- A moderate overall toll structure, at approximately 15 cents per mile for electronic transactions with scheduled increases every two years based on an annual increase of 2.75% for all roads -- the latest increase was effective July 2013;
- The potential dilution of coverage levels by leveraging existing cash flows to fund additional projects; and
- NTTA's dependence on the DNT and PGBT for approximately 39% and 38% of system revenues, respectively.

Bondholders benefit from a pledge of net system revenues. The rate covenant requires NTTA to collect tolls such 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, plus all remaining authority obligations secured by net revenues.

Toll revenue for fiscal 2013 was $525 million, up 8% relative to fiscal 2012. NTTA system transactions for fiscal 2013 totaled 610 million, up 4% from 2012. Fiscal 2013 first-tier debt service coverage was 1.59x while first- and second-tier debt service coverage was 1.35x. This calculation includes the subsidy related to the BABs as revenue rather than an offset to debt service. The financial forecast shows coverage on first-tier bonds ranging from 1.53x to 1.68x through 2020 and 1.32x to 1.44x on first- and second-tier combined through 2020. S&P views the financial forecast as achievable. The traffic and revenue consultant conducted toll sensitivity analysis that shows that NTTA is operating below its toll maximizing revenue point, which should allow for additional revenue through higher than planned toll increases, if needed. Recent transaction and revenue growth demonstrate the good demand for the system. In addition, management has introduced additional measures to enforce toll collection in cases of habitual violators that include changes in state law that allow for blocks on vehicle registration, users may be banned from use of the roads, and vehicles may be impounded. In addition, NTTA is working cooperatively with the state of Oklahoma to allow interoperability of toll tags on roads in Oklahoma and Texas. According to NTTA, approximately 79% of vehicles on its roads have transponders, with approximately 2.8 million toll tags issued. The high toll tag usage for NTTA is positive in that the cost of collection for toll tag users is lower and they also have a much higher revenue collection rate. Transaction growth and toll increases have been the main drivers of revenue growth, however, management and board actions related to toll enforcement and interoperability have also contributed to positive revenue growth.

Overall, Standard & Poor's views the NTTA's credit quality as highly leveraged and dependent on both toll rate growth 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 adequate resilience to certain downside assumptions. The system's size and strength and the higher toll-setting flexibility it affords can support a highly leveraged profile in our view, assuming management adjusts toll rates accordingly to maintain financial margins. Management has indicated that it does not have plans to issue additional debt to fund the current five-year capital improvement plan.

The authority currently has swaps outstanding 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 $31.1 million as of Oct. 17, 2014, meaning the authority would owe a payment to the swap providers if the swaps were canceled. The authority is not currently required to post collateral; however, if the authority's senior debt is lowered below 'A-' by Standard & Poor's, or 'A3' by Moody's, the authority will be required to post collateral. In addition, the swap can be terminated if the authority's rating is lowered below investment grade. The swap transactions have increased liquidity risk for the authority; however, we believe the authority has sufficient liquidity and market access to manage the risk associated with these swaps.

Outlook

The stable outlook reflects our assessment of the demonstrated demand for NTTA and the favorable demographics that support the system. The outlook also reflects our assumption that traffic and revenue will be at or near projected levels. Should economic conditions erode significantly or if the authority does not implement toll increases sufficient to meet the financial forecast, we could lower the rating. The issuance of any significant additional parity senior-lien debt could also prompt us to lower the rating, depending on the debt issuance's structure and the expected associated revenues. Sustained transaction and revenue growth above forecast could lead us to raise the rating.

Related Criteria And Research

Related Criteria

- Criteria: Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Ratings Detail (As Of October 28, 2014)		
North Texas Tollway Authority 1st tier		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 28, 2014) (cont.)		
North Texas Tollway Authority 1st tier ser 2008A (BHAC) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Authority 1st tier (ASSURED GTY)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth ser 2005C		
Long Term Rating	A-/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
North Texas Tollway Auth 1st tier		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth 1st tier		
Long Term Rating	A-/Stable	Affirmed
North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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