MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 to North Texas Tollway Authority's Series 2015B First Tier Refunding Bonds and upgrades ratings on Second Tier to A2 and subordinate bonds to Baa2

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Authority has $7.877 billion total debt outstanding

NORTH TEXAS TOLLWAY AUTHORITY, TX
Toll Facilities
TX

Moody's Rating

ISSUE	RATING
First Tier Revenue Refunding Bonds, Series 2015B	A1
Sale Amount $750,000,000	
Expected Sale Date 09/24/15	
Rating Description Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, August 27, 2015 --Moody's Investors Service assigns an A1 to $750 million First Tier Revenue Refunding Bonds, Series 2015B of the North Texas Tollway Authority (NTTA) and upgrades to A1 the rating on $6.295 billion parity outstanding first tier bonds. We also upgrade to A2 the rating on $1 billion second tier bonds and to Baa2 the rating on the $400 million Capital Improvement Fund (CIF) subordinated bonds. All bonds carry a stable outlook.

SUMMARY RATING RATIONALE

The rating upgrades are based on the NTTA's essential and increasingly well-established roadway network in a rapidly growing service area, stable financial metrics supported by automatic biennial toll increases and organic traffic growth, and no current plans for additional debt. Also noted as positive factors are the authority's strategic approach to financial and capital needs management and conservative traffic and revenue forecasting appears rooted in reasonable assumptions based on actual and expected population, housing and employment growth in the expanding service area. We believe this forecast supports the authority's ability to maintain operations and debt service coverage ratios (DSCRs) at current to improving levels. We note that a substantial portion of the debt was undertaken for the purchase of the 26-mile Sam Rayburn Tollway (SRT) project, a 50 year concession granted by the Texas Department of Transportation.

The ratings acknowledge NTTA's very high leverage of 12.57 in FY 2014, down from nearly 14 times in FY 2013, with back-loaded amortization, some debt accretion and a debt service reserve fund (DSRF) funded at half of average annual DSRF for second tier bonds and no DSRF for the CIF bonds. These challenges are offset by a strong service area economy that is spurring stronger than forecast traffic and revenue growth; reductions in maximum annual debt service (MADS) with this and prior refundings and automatic annual toll rate increases of 2.75% implemented biennially.

While the latest full traffic and revenue forecast in March 2014 lowered the projected traffic and revenue growth rates, the last two consultant's updates in connection with this and a second tier bond refunding in March 2015 revised the near-term forecast upward based on actual traffic performance and recent economic trends in the service area. We note that DSCRs in peak years are expected to improve with this refunding, following a modest improvement with the prior refunding of second tier bonds in March. This alleviates some pressure for strong annual traffic and revenue to meet escalating debt service, though principal amortization remains back-loaded.

OUTLOOK

The stable outlook takes into account recent better than forecasted traffic and revenue performance and stronger than expected DSCRs in later years due to savings from this and recent refundings. The outlook incorporates the multi-asset nature of the system, the strong and diversified service area economy, which is outperforming both the state and other large metropolitan areas in the state due to lower concentration in the energy industry. The outlook is based on the expectation that net revenues will be sufficient to produce DSCRs at least equal to the management target of 1.5 times for escalating and back loaded first tier debt and above legal covenants for all other debt. Absent meaningful reduction of debt leverage or higher than projected operating performance, the rating is unlikely to change.

WHAT COULD MAKE THE RATING GO UP

-The rating could go up if traffic and revenue growth continue to produce stronger than forecasted metrics

- No new leverage is added and liquidity remains strong

WHAT COULD MAKE THE RATING GO DOWN

-Lower than currently forecasted traffic and revenues would exert negative rating pressure given the dependence on growth to meet rising debt service costs over time

- Lower than expected video toll enforcement and collections

- Failure to implement planned toll increases necessary to produce projected debt service coverage levels

- Additional debt leverage

STRENGTHS

- Strong service area is outpacing the state nation and continues to generate traffic and revenue growth

- Traffic for FY 2014 grew 5.5% compared to the previous year, while toll revenue increased 10% due to the biennial toll increase. Fiscal year to-date 2015 transaction and revenue growth is exceeding the forecast

- Construction risk for system projects is minimal as the system's main roads are fully operational. Current capital needs for existing roads consist mainly of on-going maintenance and lane additions or extensions

- Strong tolling policy imposes set 2.75% annual rate increases every two years

- Historically adequate DSCRs with actual results above forecast

- Annual engineering report states that system is in good condition with routine maintenance fully covered by annual deposits to Operating and Maintenance (O&M) and Reserve Maintenance funds (RMF)

- Maintenance of strong, though reduced from FY 2013 liquidity with over 684 days cash on hand in FY 2014

CHALLENGES

- Notwithstanding this refunding DSCRs for escalating debt service continue depend on achieving projected revenue growth and timely implementation of toll rate increases

- Anticipated toll tag penetration and collections for the video tolling or ZipCash transactions continue to be lower than originally expected, albeit improving with enhanced enforcement initiatives

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

- Second tier bonds have half the standard 12-month DSRF

-The bond indenture flow of funds is open and allows for transfers to support non-system projects after all operating and debt service obligations of the authority have been satisfied

RECENT DEVELOPMENTS

The refunding further flattens NTTA's escalating debt service profile in peak years and is expected to reduce MADS to approximately $616 million from $633 million thus improving DSCRs in those years.

Steady economic recovery in the Dallas MSA continues to spur traffic growth in NTTA's service area. Fiscal year 2014 DSCR for all debt was better than budgeted at 1.41 times versus 1.26 times in FY 2013 due to strong toll transaction growth of 5.5% and total revenue growth of 10% as well as a small 1.9% decrease in operating and maintenance (O&M) expenses compared to FY 2013.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

Transaction and revenue growth is exceeding both CDM Smith's revised forecast of March 2015 and the authority's budget. From March 2015 to June 2015 transactions were 3.3% above forecast and this trend has been factored into revised forecasts as of the consultant's July 2015 'bringdown letter'.

The updated forecast for toll transactions is higher for 2015 through 2017, then slightly drops traffic and revenue in 2018 due to assumed removal of previously planned congestion pricing scheme on the Sam Rayburn Tollway (SRT)/121 and also removal of planned implementation of tolls on the Dallas North Tollway (DNT)Plano Parkways ramps. Overall transaction growth is mainly due to the prospects for strong service area economy and growth on the SRT and the DNT 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.

The FY 2015 budget assumes 4.3% transaction growth, 8.4% revenue growth and 12% operating expenditure growth. The DSCR was budgeted at 1.53 times for first tier debt and 1.29 times for all debt. Due to better actual than forecasted results through June the authority is estimating FY 2015 DSCR of 1.80 times for first tier and 1.49 times for all debt. We note that total expenses for first half of FY 2015 rose by 23.5% due to payment of a $12.78 million litigation settlement; however, this was being paid from unrestricted Capital Improvement Fund (CIF) monies and will not affect DSCRs.

According to Moody's Economy.com the Dallas MSA economy Dallas-Plano-Irving is performing far better than Texas and other large metropolitan areas in the state in part because its exposure to the energy industry is lower. Total employment is rising nearly twice as fast as the US average on a year-ago basis. A wide range of private service industries are leading the way, more than offsetting declines in manufacturing. The unemployment rate is down to 3.9%, significantly below the cyclical low in 2007. The housing market is strengthening with faster price appreciation, sales, and new building. MEDC forecasts that the economy will expand at a steady, above-average pace over the coming year, lifted by financial, professional and healthcare services as well as new residential construction. Longer term, the high concentrations of corporate headquarters, banking, distribution infrastructure, professional services and above-average population growth will ensure that the metro division is an above-average performer.

FINANCIAL OPERATIONS AND POSITION

Management's base case financial forecast assumes conservative traffic and revenue growth forecast compared to historical growth rates. Revenue growth of 4.73% through 2020 is based on 1.83% average annual growth (AAG) in transactions and adopted annual 2.75% rate increases. Higher rates are charged for non-toll tag/video toll users. Traffic growth rates are forecasted to taper over time. Historical average annual traffic and revenue growth rates were 7.4% and 15% from 2009 to 2014. Including the savings from this refunding the management base case yields minimum DSCRs of 1.60 times for first tier; 1.39 times for first second tier debt service and 1.06 times including all debt and reserve maintenance fund (RMF) deposits.

The NTTA's toll rates are independently set by the board. The current toll rate policy (effective July 1, 2009) is to annually increase rates by 2.75%, with toll adjustments made every two years in odd numbered years. Current rates average 16.2 cents a mile for electronic toll collection with toll tags and 23 cents for video tolls, and are relatively low for comparable systems. Planned toll rate increases will remain below revenue maximization points based on the traffic consultant's forecast and there is room for higher than expected toll rates to meet targets and covenants, if needed.

Ramped up violations enforcement efforts have resulted in improved collections to 45% in FY 2014 from 41% in FY 2011 for the roughly 20% of toll transactions that are video tolled. The forecast assumes a 43.2% collection rate in 2015 that increases to 49.4% by 2017, then remains steady at this recovery rate.

The capital improvement plan (CIP) for 2015-2019 totals $792.3 million with approximately $533 million paid from the CIF and $98.7 million to be paid from the RMF. Projects include road capacity improvement lane additions, replacement of equipment, roadway resurfacing, roadway safety improvements and office facility improvements. Capacity enhancing projects include: DNT 4th lane improvements from PGBT north to SRT and at the DNT/PGBT interchange that are anticipated to be open to traffic at the beginning of 2018 and PGBT widening between IH 35E and SH 78 that is anticipated to be completed in stages between 2016 and 2019. The capital costs for these projects are relatively moderate due to investments already made in right-of-way acquisition and bridge structures capable of supporting additional lanes.

Other long range projects/corridors under study or in various stages of environmental review include 9.9 mile Trinity Parkway from SH 183/IH 35E to US 175 with a cost range of $1.1 billion to $2 billion and the DNT Extension for segments 4A; 4B and 5A. We note that no funding plan of finance for these projects has been conceptualized.

As of June 30, 2015 the authority had on deposit approximately $28.6 million in the RMF and $130.4 million in the CIF for those projects with additional financing through cash flow. No additional debt is expected to be needed. Based on the independent consulting engineer's inspection reports the authority's assets are in good overall condition and above average for similar facilities.

Liquidity

The authority's liquidity position remains strong as it uses funds from the operations and maintenance and revenue funds to perform maintenance activities. Unrestricted cash and discretionary reserves decreased to $386.9 million at the end of FY2014 from $446.4 million in FY2013. As measured by days cash on hand, liquidity decreased to 684 days in FY2014. We note that this figure remains above the Moody's Aa rated toll road median of 582. We expect the authority will maintain this level of liquidity going forward.

Revenue leakage from video tolling dropped from 16.5% to 8.5% in 2013 and to 7.5% in 2014 and new violation enforcement mechanisms authorized by the state legislature were implemented by NTTA. After 100 unpaid violation transactions (measured each time vehicle passes through toll gantry) vehicle registration may be blocked , the vehicle may be banned from the system and/or the vehicle could be impounded.

DEBT AND OTHER LIABILITIES

Debt Structure

Though moderated with this refunding and the March 2015 refunding of second tier bonds the NTTA's escalating debt service profile depends on sustained revenue growth supported by traffic growth and toll increases. The NTTA has $178.4 millionSeries 2009D of variable rate bonds outstanding representing 2.3% of total debt. Additionally, it has 'soft' put bonds outstanding in the amount of $426 million consisting of $224 million Series 2014C with put date of January 1, 2020; $102 million Series 2012C with a put date of January 1, 2019 and $100 million Series 2011A with a put date of January 1, 2019 and a maximum interest rate with a maximum rate up to 9.5%. A failed conversion and remarketing does not constitute an event of default, and instead results in a stepped up coupon rate. There is no liquidity facility to cover such an event. We see the remarketing risk as manageable given the issuer's access to the market and the ability to afford the higher interest rate on these series if necessary.

Debt-Related 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 August 21, 2015 was negative $29.5 million. Under the swap agreement with JP Morgan Chase NTTA could be obligated to post collateral if the rating on either FGIC or the authority's First Tier Bonds is below A3 by either of the two agencies rating the bonds.

Pensions and OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

MANAGEMENT AND GOVERNANCE

The NTTA has a nine-member board of directors - two members from each of four counties served by the authority and one appointed by Governor of Texas from a county adjacent to the authority's service area. Eight of the nine members must vote affirmatively to add on another project to the system, or to proceed with an stand-alone/off system project.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

The grid-indicated rating outcome under the Government Owned Toll Roads Methodology is the same as the first tier rating.

The grid is a reference tool that can be used to approximate credit profiles in the toll road industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Government Owned Toll Roads Methodology for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS

Factor 1a Asset Type: Aa

Factor 1b Operating History: Aa

Factor 1c Competition: Aa

Factor 1d Service Area Characteristics: Aaa

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: 0

4.Other Financial, Debt and Operational Factors: 0

Scorecard Outcome: A1

KEY STATISTICS

- 2014 Transactions 2014: 643.468 million

- 5 Year CAGR, 2014: 7.2%

- Toll Revenue 2014: $578.461 million

-5 year CAGR, 2014: 14.8%

- Bond Resolution DSCR 2014:

- First Tier DSCR: 1.89x

- Second Tier DSCR: 1.55x

- Total DSCR: 1.41x [1]

- 2014 Debt to Operating Revenue, 12.57x

- Debt Outstanding:

- First Tier: $6.295 billion

- Second Tier: $1.009 billion

- Subordinate: $400 million

-ISTEA Loan: $133.8 million

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

OBLIGOR PROFILE

NTTA manages a well-established multi-asset tollway system in the Dallas-Fort Worth MSA. Assets include two bridges; one tunnel and four highways, approximately 101 miles in length and with 744 lane miles. Traffic is predominantly two axle passenger cars with only 2.4% multi-axle vehicles.

The NTTA's SPS encompasses the funding for two on-going and one planned project: PGBT Western Extension (formerly SH161) and the Chilsom Trail/Southwest Parkway and SH 360. These projects may draw on contingent operating and maintenance support from NTTA, but are not secured by system revenues and project revenues are not pledged to NTTA bonds.

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 the and second tier DSRF equal to one-half of average annual debt service.

USE OF PROCEEDS

The Series 2015B First Tier bonds refund $736.585 million first tier Series 2008A and 2008B bonds for estimated net present value interest savings of $76.4 million, or over 10% of refunded bonds. The refunding additionally flattens NTTA's escalating debt service profile in peak years and is expected to reduce MADS to approximately $616 million from $633 million and DSCRs..

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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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