

RatingsDirect®

Summary:

North Texas Tollway Authority; Joint Criteria; Toll Roads Bridges

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Credit Profile

US\$764.305 mil sys 1st tier rev rfdg bnds ser 2015B due 01/01/2041		
<i>Long Term Rating</i>	A/Stable	New
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A-/Stable	Upgraded
North Texas Tollway Auth (2nd Tier)		
<i>Short Term Rating</i>	SP-1	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying rating (SPUR) to 'A' from 'A-' on North Texas Tollway Authority's (NTTA or the authority) first-tier system revenue bonds. At the same time, Standard & Poor's raised its ratings to:

- 'A-' from 'BBB+' on the authority's second-tier revenue bonds;
- 'SP-1' from 'SP-2' on the authority's note purchase agreement program with the understanding that the authority intends to refund the program with long-term debt secured by second-tier system revenues.

Standard & Poor's also assigned its 'A' long-term rating to the authority's approximately \$750 million series 2015B system first tier revenue refunding bonds. Finally, Standard & Poor's affirmed its 'AAA/A-1+' rating on the authority's series 2009D bonds, based on the application of joint criteria using low correlation. The outlook, where applicable, is stable.

The 'A' rating on the authority's first-tier bonds reflects our view of the economic strength of the region with significant development along the corridors where NTTA's roads are located, recent traffic and revenue performance that is strong and meets or exceeds previous forecasts, and significant savings from refundings and restructurings that have lowered the authority's maximum annual debt service coverage (MADS) to nearly \$615 million from approximately \$700 million. The aforementioned strengths are partly offset by our view of the authority's highly leveraged system of toll facilities that still requires continued traffic and revenue growth to meet its financial forecast. The 'A-' rating reflects our view of the second-tier bonds' subordinate status.

The 'AAA/A-1+' rating on the series 2009 bonds reflects the application of our joint criteria using low correlation. The long-term component of the rating reflects the joint support of an irrevocable direct-pay letter of credit (LOC) issued by Royal Bank of Canada and the SPUR on NTTA, the obligor. The short-term component of the rating solely reflects that of Royal Bank of Canada, the LOC provider.

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 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 non-tolled alternatives;
- Demonstrated demand for the existing system, particularly the DNT and the PGBT, with system-wide average annual growth in transactions at 7.2% and toll revenues at 15% from 2009 to 2014;
- Historically strong demographic trends and favorable traffic characteristics, with projected population and employment levels that should support the system-wide tolling regime that 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 1.60x to 1.76x and combined first- and second-tier coverage that ranges from 1.38x to 1.49x from 2015 to 2020.

The authority's high debt burden and escalating debt service schedule offset these strengths, in our view. NTTA has approximately \$7.8 billion in outstanding debt, consisting of:

- First-tier debt (\$6.2 billion or 80%),
- Second-tier debt (\$1 billion or 13%), and
- Third-tier and subordinate debt (\$533.8 million or 7%), the CIF bonds and the ISTEA loan are secured by net revenues in the capital improvement fund (CIF).

In our opinion, additional credit risks include:

- General risks associated with accurately forecasting long-term traffic and revenues, although recent performance has been above forecast;
- 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 or BAB subsidy payment) will increase to a peak of approximately \$633 million by 2028 from approximately \$384 million in fiscal 2014;
- A moderate overall toll structure, at approximately 17 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 2015; 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 2014 was \$580 million, up 10% relative to fiscal 2013. NTTA system transactions for fiscal 2014 totaled 645 million, up 7.2% from 2013. Fiscal 2014 first-tier debt service coverage was 1.82x while first- and second-tier debt service coverage was 1.51x as calculated by Standard & Poor's. The financial forecast shows coverage on first-tier bonds ranging from 1.60x to 1.76x through 2020 and 1.38x to 1.49x on first- and second-tier combined through 2020. Standard & Poor's views the financial forecast as achievable. Pro forma debt service is scheduled to increase from \$384 million in 2014 to approximately \$633 million by 2028. The maximum annual debt service (MADS) will decrease further with the 2015B refunding estimated to decrease to \$616 million. MADS coverage using 2014 net available for debt will be approximately 0.8x. The traffic and revenue consultant-conducted toll sensitivity analysis 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 to maintain financial margins. Management has indicated that it does not plan 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 \$29.5 million as of August 21, 2015, 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 rating 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. We do not anticipate raising the rating during the two-year outlook period.

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
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria Update: Joint-Support Criteria Refined, Feb. 3, 2006
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

Ratings Detail (As Of August 28, 2015)

North Texas Tollway Authority 1st tier		
<i>Long Term Rating</i>	A/Stable	Upgraded
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier ser 2008A (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (ASSURED GTY)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (MBIA) (National)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth ser 2005C		
<i>Long Term Rating</i>	A/Stable	Upgraded
<i>Unenhanced Rating</i>	NR(SPUR)	Current

Ratings Detail (As Of August 28, 2015) (cont.)		
North Texas Tollway Auth sys 1st tier var rate rev rfdg rmkt 03/24/2015 bnds ser 2009D due 01/01/2049		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth toll rds br (BAM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded
North Texas Tollway Auth Sys First Tier Rev Rfdg Bnds		
<i>Long Term Rating</i>	A/Stable	Upgraded
North Texas Tollway Auth Sys 2nd tier (AGM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A/Stable	Upgraded
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A/Stable	Upgraded
North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
North Texas Tollway Auth (Dallas North Tollway Sys) toll sys		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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