

CREDIT OPINION

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New Issue

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North Texas Tollway Authority

New Issue: Moody's assigns A1 to NTTA's (TX) Series 2016A First Tier Refunding Bonds; Outlook stable

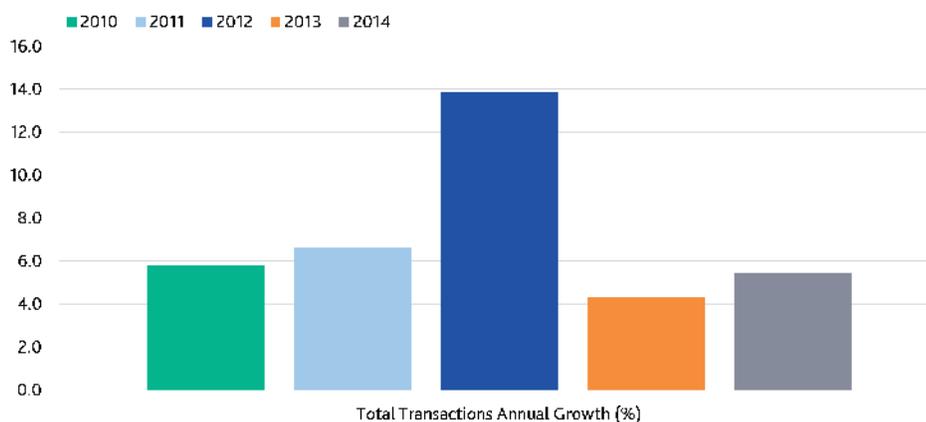
Summary Rating Rationale

Moody's Investors Service assigns an A1 to the North Texas Tollway Authority's (NTTA's) \$947 million Series 2016A First Tier Revenue Refunding Bonds with a stable outlook.

The rating is 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 other than refunding issues. Also noted as positive factors are the authority's strategic approach to financial and capital needs management, and conservative traffic and revenue forecasting that is 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, particularly when factoring savings from the current refunding.

Exhibit 1

Total Transactions Annual Growth



Source: Moody's Investors Service Municipal Financial Ratio Analysis Database

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 (rated A2)

and no DSRF for the capital improvement fund (CIF) bonds rated Baa2. 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.

Actual traffic and revenue is ahead of forecast due to continue positive 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 current refunding and refundings of second tier bonds completed in 2015. The refundings for interest savings alleviate some pressure for strong annual traffic and revenue to meet escalating debt service, though principal amortization remains backloaded.

Credit 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

Credit Challenges

- » Despite lower expected annual debt service with this refunding, projected DSCRs 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

Rating 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

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all other debt. Absent meaningful reduction of debt leverage or higher than projected operating performance, the rating is unlikely to change.

Factors that Could Lead to an Upgrade

- » 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

Factors that Could Lead to a Downgrade

- » 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

Key Indicators

Exhibit 2

Key Indicators

	2010	2011	2012	2013	2014
Total Transactions ('000)	481,913	513,754	585,052	610,129	643,468
Total Transactions Annual Growth (%)	5.8	6.6	13.9	4.3	5.5
5-Year Traffic CAGR (%)	7.3	6.5	8.8	8.2	7.2
Debt Outstanding (\$'000)	7,543,022	7,555,402	7,556,400	7,588,629	7,648,188
Debt to Operating Revenues (x)	19.7	17.0	14.9	13.9	12.6
Days Cash on Hand ('000)	814	558	750	910	684

Source: Moody's Investors Service Municipal Financial Ratio Analysis Database

Recent Developments

For the first two months of 2016 transactions were 6.8% higher than forecasted in July 2015, but there has been no revision in the consultant's forecast. Traffic transactions were 2% and revenues 2.4% over the forecast for 2015. Fiscal year 2015 transactions grew 4.9% over 2014 following CAGR of 7.2% for the five years through fiscal 2014.

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.

This refunding further flattens NTTA's escalating debt service profile in peak years and is expected to reduce MADS to approximately \$589 million from \$616 million, thus improving DSCRs in peak years.

Detailed Rating Considerations

Transaction and revenue growth continues to exceed both CDM Smith's revised forecast of March 2015 and the authority's budget.

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 authority is estimating FY 2015 DSCR of 1.80 times for first tier and 1.48 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.

Revenue Generating Base

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.

Operational and Financial Performance

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 1.61 times for first tier; 1.39 times for first second tier debt service and 1.09 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. The authority's board is required to take action in order to deviate from this toll rate schedule. Current rates average 17.1 cents a mile for electronic toll collection (ETC) with toll tags and 25.6 cents a mile 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 increased 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 in later years.

The capital improvement plan (CIP) for 2016-2020 totals \$847.7 million with approximately \$620.1 million paid from the CIF and \$127.9 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.

LIQUIDITY

As of December 31, 2015, the NTTA had \$382.8 million in unrestricted current assets. 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.

Debt and Other Liabilities

DEBT STRUCTURE

Though moderated with this refunding and the 2015 refundings 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 million Series 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 10%. 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 March 31, 2016 was negative \$31.5 million. Under the swap agreement with JP Morgan Chase NTTA could be obligated to post collateral if the rating on either FGIC and/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 a stand-alone/off system project.

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 2016A First Tier bonds refund million first tier Series 2008A, 2008B, 2009K, 2009A bonds for estimated net present value interest savings of approximately \$125 million, or over 12.8% of refunded bonds. The refunding additionally flattens NTTA's escalating debt service profile in peak years and is expected to reduce MADS to approximately \$589 million from \$616 million.

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.

Exhibit 3

Government Owned Toll Road Methodology Scorecard Factors

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Aa	
	b) Operating History	Aa	
	c) Competition	Aa	
	d) Service Area Characteristics	Aaa	
2. Performance Trends	a) Annual Traffic Transactions	Aaa	
	b) Traffic Profile	Aaa	
	c) Five Year Traffic CAGR	Aaa	
	d) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	Ba	1.23x
	b) Debt to Operating Revenue	Caa	12.57
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	Aa	
	b) Limitations to Growth/Operational Restrictions	A	
Notching Considerations		Notch	
	1 - Debt Service Reserve Fund level		
	2 - Open/Closed Flow of Funds	-0.5	
	3 - Days Cash on Hand		
	4 - Other Financial, Operating and Debt Factors		
Scorecard Indicated Rating:		A1	

Source: Moody's Investors Service

Methodology

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

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.

Ratings

Exhibit 4

North Texas Tollway Authority, TX

<u>Issue</u>	<u>Rating</u>
System First Tier Revenue Refunding Bonds, Series 2016A	A1
Rating Type	Underlying LT
Sale Amount	\$947,020,000
Expected Sale Date	05/02/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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