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## Summary:

# North Texas Tollway Authority; Joint Criteria; Toll Roads Bridges

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### Credit Profile

US\$947.02 mil sys 1st tier rev rfdg bnds ser 2016A due 01/01/2039		
<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	Affirmed
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A-/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to North Texas Tollway Authority's (NTTA) approximately \$947 million series 2016A system first-tier revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'A-' rating on NTTA's second-tier revenue bonds and its 'SP-1' short-term rating on the authority's note purchase agreement program with the understanding that NTTA intends to refund the program with long-term debt secured by second-tier system revenues.

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 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. The rating also reflects recent strong traffic and revenue performance that 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 \$589 million from approximately \$700 million. 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 partially offsets these strengths. The 'A-' rating on the second-tier bonds reflects our view of their subordinate status.

The 'AAA/A-1+' rating on the series 2009 bonds reflects the application of our joint criteria using low correlation. The rating's long-term component 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, the LOC provider.

Bond proceeds will refund previous debt.

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, 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 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 PGBT, with system-wide average annual growth in transactions at 7% and toll revenues at 11% from 2010 to 2015 (unaudited);
- 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 in 2016; and
- A base-case financial forecast with good first-tier debt service coverage (DSC) and combined first- and second-tier DSC.

The authority's high debt burden and escalating debt service schedule offset these strengths, in our view. NTTA has approximately \$7.7 billion in debt (pro forma including 2016A), consisting of:

- First-tier debt (\$6.1 billion, or 79% of the total);
- Second-tier debt (\$1.1 billion or 14%); and
- Third-tier and subordinate debt (\$531 million or 7%). Net revenues in the capital improvement fund (CIF) secure the CIF bonds and ISTEA loan.

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 [BAB] subsidy payment) will increase to a peak of approximately \$589 million by 2026 from approximately \$402 million in fiscal 2016;
- 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 most recent increase took effect July 2015; and
- NTTA's dependence on the DNT and PGBT for estimated at 35% and 33% of system revenues in 2016, 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 first-tier bonds outstanding;
- 1.20x scheduled debt service requirements on first- and second-tier bonds outstanding; or
- 1.00x scheduled debt service requirements on 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, and we expect revenue for 2015 to increase 6% to 645 million (unaudited). NTTA system transactions for fiscal 2014 totaled 645 million, up 7.2% from

2013. Transactions for 2015 are up 5% to 676 million. Fiscal 2014 first-tier debt service coverage was 1.82x while first- and second-tier coverage was 1.51x (Standard & Poor's-calculated). Based on unaudited data fiscal 2015 first- and second-tier debt service coverage was 1.63x (Standard & Poor's-calculated). The financial forecast shows coverage on first-tier bonds ranging from 1.61x to 1.77x through 2021 and 1.39x to 1.50x on first- and second-tier combined through 2021. Standard & Poor's views the financial forecast as achievable. Pro forma debt service is scheduled to increase to approximately \$589 million by 2026 from \$402 million in 2016. MADS coverage using 2014 net available for debt will be approximately 0.84x. 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 measures to enforce toll collection in cases of habitual violators. These include changes in state law that allow for blocks on vehicle registration, banning users from using the roads, and impounding of vehicles. In addition, NTTA is working with the State of Oklahoma to allow interoperability of toll tags on roads in Oklahoma and Texas. According to the authority, approximately 79% of vehicles on its roads have transponders, with approximately 2.8 million toll tags issued. The high toll tag usage is credit-positive in that the cost of collection for toll tag users is lower and they 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.

Overall, Standard & Poor's views the NTTA's credit quality as highly leveraged and dependent on both toll 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, 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 has swaps 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 million as of April 20, 2016, meaning the NTTA would owe a payment to the swap providers if the swaps were canceled. The authority is not currently required to post collateral; however, if our rating on the senior debt falls below 'A-', or 'A3' by Moody's, the NTTA will be required to post collateral. In addition, the swap can be terminated if we lower the ratings on the authority below investment-grade levels. The swap transactions have increased liquidity risk for the NTTA; 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.

### Upside scenario

Although unlikely we could raise the rating during the two-year outlook if toll increases or significantly higher traffic increase DSC significantly above the current forecast.

### Downside scenario

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.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- 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: Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014
- 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Ratings Detail (As Of April 25, 2016)

North Texas Tollway Authority 1st tier <i>Long Term Rating</i>	A/Stable	Affirmed
North Texas Tollway Authority 1st tier (ASSURED GTY) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth sys 1st tier (BAM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds br (BAM) <i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds br (BAM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth Sys First Tier Rev Rfdg Bnds <i>Long Term Rating</i>	A/Stable	Affirmed

<b>Ratings Detail (As Of April 25, 2016) (cont.)</b>		
North Texas Tollway Auth Sys 2nd tier (AGM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed
North Texas Tollway Auth TOLLFAC		
<i>Long Term Rating</i>	A/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
North Texas Tollway Auth (2nd Tier)		
<i>Short Term Rating</i>	SP-1	Affirmed
North Texas Tollway Auth (North Texas Tollway Auth) JOINTCRIT		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth () TOLLFAC (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A/Stable	Affirmed
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A/Stable	Affirmed
North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<b>North Texas Tollway Auth</b>		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<b>North Texas Tollway Auth (Dallas North Tollway Sys) toll sys</b>		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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