

# RatingsDirect®

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## Summary:

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

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### Credit Profile

US\$1792.905 mil sys rev & rfdg bnds first tier bnds ser 2017A due 01/01/2047		
<i>Long Term Rating</i>	A/Stable	New
US\$776.59 mil sys rev & rfdg bnds second tier bnds ser 2017B due 01/01/2047		
<i>Long Term Rating</i>	A-/Stable	New

## Rationale

S&P Global Ratings has assigned its 'A' long-term and underlying rating (SPUR) to North Texas Tollway Authority's (NTTA) approximately \$1.8 billion series 2017A first-tier system revenue bonds. At the same time, S&P Global Ratings assigned its 'A-' long-term rating on the authority's approximately \$777 million series 2017B second-tier revenue bonds.

S&P Global Ratings also affirmed its 'A' long-term rating on the NTTA's first-tier system revenue bonds, and its 'A-' long-term rating on the authority's second-tier system revenue bonds. As well, S&P Global Ratings affirmed its 'SP-1' rating on NTTA'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. In addition, S&P Global Ratings has affirmed its 'AA+/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 region's economic strength, with significant development along the corridors where the NTTA's roads are located. The rating also reflects our opinion of NTTA's recent strong traffic and revenue performance that meets or exceeds previous forecasts, and significant savings from bond refundings.

These strengths are offset by our view of the NTTA's highly leveraged system of toll facilities that requires continuous revenue growth to meet its financial forecast. The 'A-' rating on the second-tier bonds reflects our view of their subordinate status.

The 'AA+/A-1+' rating on the series 2009D 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 (RBC) and the SPUR on NTTA, the obligor. The rating's short-term component solely reflects RBC's creditworthiness.

Bond proceeds will be used to refinance previously issued NTTA system revenue bonds, all special projects system (SPS) bonds, and the SPS Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for estimated interest savings. Previously, the SPS bonds were further secured as an obligation of the Texas Department of Transportation

(TxDOT) and now are solely on obligation of NTTA. While NTTA's absorption of the SPS bonds and TIFIA loan adds a sizable portion of debt to the system, the related revenues from the two absorbed roads mitigates this risk and is ultimately credit neutral, in our opinion.

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, the Sam Rayburn Tollway (SRT) project (subject to the TxDOT's reversionary interest after 50 years), the Chisholm Trail Parkway (CTP), and PGBT Western Extension (PGBT WE). The CTP and PGBT WE were previously part of the SPS and are being incorporated into the NTTA with this transaction

The ratings reflect what we consider the NTTA's:

- Role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth metropolitan statistical area (MSA), despite non-tolled alternatives;
- Demonstrated demand for the existing system, particularly the DNT and PGBT, with systemwide average annual growth in transactions at 6.6% and toll revenues at 10.5% from 2011-2016;
- Historically strong demographic trends and favorable traffic characteristics, with projected population and employment levels that should support the authority's systemwide tolling;
- Increased system diversification with the SRT toll facility, which management projects will account for approximately 25% of future system revenues; and
- A base-case financial forecast with good total debt service coverage (DSC; S&P Global Ratings-calculated) that we expect to continue.

The authority's high debt burden and escalating debt service schedule offset these strengths, in our view.

As of Sept. 1, 2017 the NTTA's debt had approximately \$7.7 billion, consisting of:

- First-tier debt (\$6.2 billion, or 80% of the total);
- Second-tier debt (\$998 million, or 13%); and
- Subordinate debt (\$528 million, or 7%).

In our opinion, additional credit risks include the authority's:

- Ability to accurately forecast long-term traffic and revenues, although NTTA's recent performance has been above forecast;
- Dependence on system-revenue growth to cover escalating debt service requirements, and meet forecasted coverage levels;
- Moderate overall toll structure, at approximately 18 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 2017; and
- Dependence on the DNT and PGBT for an estimated 35% and 33% of system revenues in 2016, respectively.

Bondholders benefit from a pledge of net system revenues. The rate covenant requires the 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; or
- 1.20x scheduled debt service requirements on first- and second-tier bonds; or

- 1x scheduled debt service requirements on first-, second-, and third-tier bonds, plus all remaining authority obligations secured by net revenues.

Toll revenue for fiscal 2016 was \$665 million, up 7.1% from the previous year. NTTA system transactions for fiscal 2016 totaled 703 million, up 4% from 2015. Fiscal 2016 first-tier debt service coverage was 1.91x. Total coverage (S&P Global Ratings-calculated), which includes combined first-tier and second-tier debt as well as subordinate payments on an Intermodal Surface Transportation Efficiency Act (ISTEA) loan and the 2010A-B bonds, was 1.48x. Net revenues in the capital improvement fund secure the 2010A-B bonds and ISTEA loan. The financial forecast shows coverage on first-tier bonds ranging from 1.76x to 1.95x through 2022, and 1.33x to 1.42x on total coverage through 2022. S&P Global Ratings views the financial forecast as achievable. Pro forma annual debt service (net of a Build America Bonds [BABs] subsidy payment) is scheduled to increase to approximately \$703 million by 2026, from \$396 million in 2016. The traffic and revenue (T&R) consultant-conducted toll-sensitivity analysis shows the NTTA is operating at approximately 50% below its toll-maximizing revenue point, which should allow for additional revenue through higher-than-planned toll increases, if needed. While the system no longer relies on annual transaction growth to meet its debt service obligations at sufficiency, dependence on system-revenue growth is still required to meet the forecasted debt coverage levels. T&R consultants, working with NTTA, are forecasting average annual transaction growth of 2.4% from 2017-2020, which is achievable in our opinion given the recent average annual growth rate of 4.7% from 2013-2016.

Recent transaction and revenue growth demonstrate good demand for the system. In addition, management has introduced measures to enforce toll collection for habitual violators. These include changes in state law that allow for blocks on vehicle registration, banning motorists from using the roads, and impounding vehicles. The NTTA also has an agreement with the State of Oklahoma to allow interoperability of toll tags on roads in Oklahoma and Texas. According to the authority, approximately 80% of vehicles on its roads have transponders, with approximately 4.3 million toll tags issued. The high toll-tag use is a credit strength, in our view, as the cost of collection for toll-tag users is lower and the tags yield a much higher revenue-collection rate. Transaction growth and toll increases are the main drivers of revenue growth, however toll enforcement and interoperability also contribute.

Overall, S&P Global Ratings views the NTTA as highly leveraged and dependent on both toll growth and the economic development necessary to support the authority's transaction projections, albeit in a region that has demonstrated strong, historically supportive demographic trends. Various sensitivity analyses show the NTTA's projected financial performance can withstand some negative pressure. The system's size and strength and its higher toll-setting flexibility can support a highly leveraged profile, in our view, assuming management adjusts toll rates to maintain financial margins.

We expect the estimated costs for the NTTA's capital improvement plan (CIP) from 2017-2021 to be approximately \$1.18 billion, of which we expect the authority to pay \$213 million from the reserve maintenance fund (RMF), \$884 million from the capital improvement fund (CIF), \$52 million from the construction fund (CF), \$4.6 million from the feasibility study fund, and \$27 million from reimbursement agreements. As of July 31, 2017, the NTTA had on deposit about \$36 million in the RMF, \$172 million of unrestricted funds in the CIF, and \$68 million in the CF. The authority anticipates funding the CIP from the amounts in (and future anticipated deposits to) these funds. The NTTA also anticipates having about \$111 million in various funds held under the SPS trust agreement that will be available for

those projects after the bond issuances. Although we don't expect it, the authority may use its commercial paper note program to finance the CIP, if cash flow from the NTTA system is not sufficient to make the deposits. Management indicates it will not issue additional debt to fund the CIP.

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 \$21 million as of Sept. 14, 2017, meaning the NTTA would owe a payment to the swap providers if the swaps were canceled. The authority is not required to post collateral to Citibank; and with respect to JP Morgan Chase Bank, only , if our rating on the senior debt falls below 'A-' (or 'A3' by Moody's). In addition, the swap can be terminated if we lower the ratings below investment-grade levels ('BB+' or lower). The swaps increased the NTTA's liquidity risk, but we believe the authority has sufficient liquidity and market access to manage the risk.

## Outlook

The stable outlook reflects our assessment of the demonstrated demand for the 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

We could raise the rating, if toll or traffic increases push total DSC (S&P Global Ratings-calculated) above the forecast to a level that we believe is sustainable.

### Downside scenario

We could lower the rating if economic conditions erode significantly during the two-year outlook period, or if the authority does not implement toll increases sufficient to meet the financial forecast. The issuance of any significant additional debt could also prompt a downgrade, depending on the debt issuance's structure and the expected associated revenues.

### Ratings Detail (As Of September 21, 2017)

North Texas Tollway Authority 1st tier		
<i>Long Term Rating</i>	A/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 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 (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

**Ratings Detail (As Of September 21, 2017) (cont.)**

North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A-/Stable	Affirmed
North Texas Tollway Auth revolving note purch agmt ser A due 12/01/2017		
<i>Short Term Rating</i>	SP-1	Affirmed
North Texas Tollway Auth sys 1st tier rev rfdg bnds ser 2016A due 01/01/2039		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth sys 1st tier (AGM) (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
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)	Withdrawn
North Texas Tollway Auth (North Texas Tollway Auth) JOINTCRIT		
<i>Long Term Rating</i>	AA+/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 the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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