

# North Texas Tollway Authority; Toll Roads Bridges

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## Table Of Contents

.....

Rationale

Outlook

Enterprise Risk Profile

Financial Risk Profile

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## Credit Profile

US\$458.21 mil sys rev rfdg first tier bnds ser 2019A due 01/01/2044		
<i>Long Term Rating</i>	A+/Stable	New
US\$233.755 mil sys rev rfdg second tier bnds ser 2019B due 01/01/2029		
<i>Long Term Rating</i>	A/Stable	New
North Texas Tollway Auth () TOLLFAC (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

## Rationale

S&P Global Ratings has assigned its 'A+' rating to the North Texas Tollway Authority's (NTTA) pro forma \$449 million first-tier revenue refunding bonds, series 2019A, and its 'A' rating to NTTA's pro forma \$230 million second-tier revenue refunding bonds, series 2019B.

At the same, S&P Global Ratings has affirmed its 'A+' rating on NTTA's first-tier toll road revenue bonds and its 'A' rating on the authority's second-tier revenue bonds outstanding. In addition, 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. However, to date, the authority has not made any draws on the program and does not have any notes outstanding. The outlook, where applicable, is stable.

The ratings reflect the combination of the authority's very strong enterprise risk profile and strong financial risk profile. Our enterprise risk profile assessment incorporates NTTA's strong traffic trends (despite frequent toll rate increases) due to its important role, strategic location, and lack of significant competition from toll-free roads. Our financial risk profile assessment considered NTTA's strong revenue growth from frequent toll rate increases and favorable traffic trends that we expect to continue. This will allow the authority to maintain strong financial performance and an adequate capacity to manage its increasing debt service requirements with level debt service not occurring until 2024.

The very strong enterprise risk profile reflects our view of NTTA's:

- Very strong market position due to the toll road's strong demand characteristics given its important role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), despite the existence of nontolled alternatives;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and below-average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals; detailed financial forecasts that management updates frequently to address material

variances; and a very capable staff that has considerable experience operating a regional tolling agency.

The strong financial risk profile reflects our view of NTTA's:

- Strong financial performance that we expect to continue due to the authority's history of strong revenue growth from its willingness and ability to increase toll rates frequently and the toll road's favorable traffic trends that, in our view, will allow NTTA to maintain total debt service coverage (DSC; S&P Global Ratings-calculated) above 1.25x;
- Strong debt and liabilities capacity that we expect will continue because of the authority countering rising debt service requirements with additional revenue from toll increases, and the lack of additional debt plans, ensuring that its capacity to service its debt will not diminish; and
- Adequate liquidity and financial flexibility based on our expectation that NTTA's liquidity position—966 days' cash on hand and 5.8% of debt in fiscal 2018—will decline to levels we consider adequate as the authority intends to entirely cash-fund its capital plan, which will include the drawing down of a portion of current unrestricted reserves.

Net revenues of the NTTA toll system secures the authority's toll road revenue bonds. The 'A' rating on the second-tier bonds reflects our view of their subordinate lien on the net revenues. Post-issuance, NTTA will have approximately \$6.8 billion of first-tier debt and \$2.1 billion of second-tier debt outstanding for a total of \$8.9 billion.

Bond proceeds will be used to refund all or a portion of the authority's first-tier variable-rate revenue bonds, 2005C; first-tier revenue bonds, 2009A; first-tier revenue bonds, series 2009C; first-tier variable-rate revenue refunding bonds, series 2014C; and subordinate-tier revenue bonds, series 2010B-2 for estimated interest savings.

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 were incorporated into the NTTA system in 2017.

## Outlook

The stable outlook reflects our opinion that NTTA will maintain total DSC (S&P Global Ratings-calculated) at or above 1.25x and its financial capacity to manage its debt burden will not diminish.

### Upside scenario

We do not expect to raise the ratings during the next two years, due to our opinion that the authority's financial metrics will be maintained near current levels, including the increasing debt service requirements.

### Downside scenario

We could lower the ratings in the next two years if we believe revenue growth needed for the authority to maintain total DSC (S&P Global Ratings-calculated) near 1.25x is not feasible.

## Enterprise Risk Profile

Our assessment of NTTA's enterprise risk profile as very strong reflects the authority's extremely strong economic fundamentals, low industry risk, very strong market position, and very strong management and governance.

### Economic fundamentals

The primary service area, the Dallas-Fort Worth-Arlington MSA, has extremely strong economic fundamentals due to favorable income levels and economic activity as measured by GDP per capita, a large population base, average expected population growth, and average unemployment levels.

We consider the economy of the MSA broad and diverse. Dallas is a major economic hub in the southern and central part of the country and the region remains a desirable location for new businesses as well as recent locations of corporate headquarters. The MSA is home to 22 Fortune 500 companies, 3,849 company headquarters, and 242 Class A office buildings.

### Market position

We consider the authority's overall market position very strong, reflecting its important role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth-Arlington MSA, despite the existence of nontolled alternatives.

Because of the system's important role and strategic location, it has had resilient and favorable traffic trends. From 2008-2016, a period that included the Great Recession, a spike in fuel prices, and frequent rate increases, NTTA traffic levels exhibited strong growth, with an average annual growth rate of 11%. More recently, in fiscal 2018, 831 million vehicles traveled the system, a record for volume. Passenger cars account for about 97% of toll revenue as well as transactions. Toll revenue in fiscal 2018 also reached a peak of \$841 million, or 5.5% over fiscal 2017.

### Management and governance

The authority's management and governance, in our view, is very strong, reflecting our view of NTTA's strategic positioning, risk management and financial management, and organizational effectiveness. The management team has considerable expertise and experience due to its long tenure with the authority. Management provides frequent and high-quality disclosure and maintains a detailed long-range financial forecast.

Additionally, management has adopted a variety of financial policies, including an investment policy, a debt management policy, toll rate-setting policy, and an interest rate swap management policy. We consider these types of codified arrangements prudent in terms of managing NTTA's operations.

## Financial Risk Profile

Our assessment of NTTA's financial risk profile as strong incorporates the authority's strong financial performance, adequate debt and liabilities capacity, and adequate liquidity and financial flexibility. We base our financial profile risk assessment on historical figures, which reflect our expectation that key financial metrics will continue near current levels. In our analysis, we evaluated NTTA's updated detailed financial plan that we believe includes reasonable

assumptions, and yield results (S&P Global Ratings-calculated) comparable with historical ones. Our financial profile assessment also considered the authority's financial policies, which we consider credit neutral.

Since 2009 and in accordance with NTTA's board-adopted toll rate policy, the authority has implemented a systemwide toll increase on a biennial basis incorporating 2.75% increases annually with the most recent one on July 1, 2017, the next on July 1, 2019, and continuing every odd year for the life of the bonds.

As a result of the most recent traffic and revenue study by the authority's consultant, in August 2018, total adjusted gross toll revenue is estimated to increase to \$2.3 billion by fiscal 2040, or about 4% annualized growth, due to a combination of transaction growth and continuation of the biannual toll rate increases. In terms of annual transaction growth, the forecast assumes an average growth rate of 1.7% from 2019-2040, 2.1% which we consider reasonable and achievable based on the mature nature of the toll road system and the continued expected growth in the Dallas MSA. The average annual transaction growth from 2014-2018 was 4.3%. Although revenue growth is likely to grow substantially during the forecast period, we are expecting financial metrics to be maintained comparable to historical levels.

### **Financial performance**

We view NTTA's financial performance as strong, which we expect to continue. The assessment incorporates our expectation that the authority will maintain total DSC, as per our calculations, at or above 1.25x; its demonstrated willingness and ability to raise tolls as necessary to meet or exceed projections; and its resilient and favorable traffic trends.

From 2008 to 2017, a period that included the Great Recession, a spike in fuel prices, and frequent rate increases, NTTA toll revenues grew substantially to \$713 million in 2017 from \$241 million in 2008, with an average annual growth rate of 20.5%.

Average total DSC, as per our calculations, for fiscal years 2016-2018 is near 1.3x. Our DSC calculations include audited financial results of NTTA reported on a GAAP basis, adding total operating revenues, interest income, subtracting total operating expenses net of depreciation, then dividing by the combined annual debt service of the NTTA's first-tier, second-tier, Intermodal Surface Transportation Efficiency Act (ISTEA) loan payments, and the subordinate-lien debt service. Calculating DSC as per the indenture, DSC for first- and second-tier revenue bonds is 1.90x and 1.47x, respectively, for fiscal 2018. The authority's rate covenant is to maintain DSC of no less than 1.35x on the first tier and 1.20x on the combined first and second tiers.

For NTTA to maintain DSC (S&P Global Ratings-calculated) at its projected levels through the forecast, it will require continued reliance on growth in toll revenue due to toll increases and modest growth in traffic, which we believe is attainable given the authority's demonstrated ability and willingness to increase tolls and favorable traffic trends.

### **Debt and liabilities capacity**

NTTA's debt capacity, in our view, is strong and we expect it to remain so and improve over time as the authority has no additional borrowing plans. The authority's debt to net revenues in fiscal 2018 is 13x, and we expect it to remain below 15x due to additional revenue from planned toll rate increases and transaction growth, as well as the lack of additional debt added to the system. NTTA's five-year 2019-2023 capital improvement plan (CIP) totals about \$1.6

billion. The authority plans to cash finance all of its CIP with a combination of current restricted and unrestricted reserves as well as future excess cash flow.

**Liquidity and financial flexibility**

In our assessment of NTTA's adequate liquidity and financial flexibility, we considered its audited fiscal year-end 2018 (Dec. 31) unrestricted cash and investments balance of nearly \$550 million (956 days' cash on hand and 5.8% of debt), a level which we consider strong. However, we expect liquidity and financial flexibility will decline to levels we consider adequate as the authority intends entirely cash-fund its CIP, which will include the drawing down of a portion of current unrestricted reserves.

Ratings Detail (As Of June 20, 2019)		
North Texas Tollway toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A/Stable	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 toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

<b>Ratings Detail (As Of June 20, 2019) (cont.)</b>		
North Texas Tollway Auth toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth CP ser A		
<i>Short Term Rating</i>	SP-1	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)	
North Texas Tollway Auth (AGM)		
<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 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.

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