Rating Action: Moody's revises outlook to positive for North Texas Tollway Authority's revenue bonds, assigns A1 and A2 to the 2019 refunding bonds

20 Jun 2019

New York, June 20, 2019 -- Moody's Investors Service ("Moody's") has assigned an A1 to North Texas Tollway Authority's (NTTA) $448.7 million First Tier Revenue Refunding Bonds, Series 2019A and A2 to the $230.2 million Second Tier Revenue Refunding Bonds, Series 2019B. Moody's also upgraded the $400.0 million subordinate lien bonds to Baa1 from Baa2 and affirmed the A1 on $6.78 billion outstanding first tier bonds and A2 on $2.10 billion second tier bonds. The authority's rating outlook has been revised to positive from stable.

RATINGS RATIONALE

All ratings are based on the NTTA's essential roadway network located in one of the fastest growing US service areas that will experience continued traffic growth and combine with automatic biennial toll increases to produce strong revenue growth. Debt service coverage ratios (DSCRs), on Moody's net revenue basis, will narrow to 1.22x over the next two fiscal years to under the authority's budgeted revenue forecast, but will begin a long-term strengthening given the flattening debt service profile to 1.32x in fiscal 2023. Higher than budgeted revenue in year-to-date fiscal 2019 provides for higher DSCR and lower leverage. Leverage is currently elevated but will moderate as revenues grow and debt steadily amortizes. Adjusted debt to operating revenue has decreased to 10.5x based on unaudited fiscal 2018 results and will fall below 8.0x by fiscal 2023 based on the authority's planned growth. The authority's ability to fund its five-year growth needs without additional debt and minimal reduction liquidity additionally supports the rating. Reductions in annual debt service requirements and elimination of variable rate debt and swaps support the ratings.

The A1 first tier rating is based on the senior security pledge and DSCR of 1.7x in fiscal 2018. The A2 second tier rating is based on the second tier pledge of revenue and weaker debt service reserve requirement. The upgrade to Baa1 of the subordinate lien rating reflects higher total debt service coverage and ample balances in the capital improvement fund (CIF) to support payment of the obligations. The Baa1 rating on subordinate debt additionally reflects the lack of a pledge of revenue and no debt service reserve. The planned Series 2019B bonds will also refund subordinate lien bonds.

RATING OUTLOOK

The positive outlook reflects Moody's view that the authority will continue to see strong year-over-year traffic growth in fiscal 2019 and beyond supporting higher DSCR and a more rapid reduction in leverage than traffic engineer's forecast suggests.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Sustained and projected DSCR of first and second tier bonds above 1.5x
- Leverage, as measured by debt to operating revenue, below the 9.5x

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Additional debt issuances or revenue declines that lead to sustained DSCR of first and second tier bonds below 1.3x
- Lower than expected video toll enforcement and collections
- Failure to implement planned toll increases necessary to produce projected debt service coverage levels
- Traffic and revenue growth no longer exceeds current projections

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


PROFILE

NTTA manages a well-established multi-asset tollway system in the Dallas-Fort Worth MSA. Assets include two bridges; one tunnel and five highways, approximately 141 miles in length and with 992 lane miles. Traffic is predominantly two axle passenger cars with only 2.7% multi-axle vehicles.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Earl Heffintrayer
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody’s Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan K.G., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and
municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as
applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings
opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.