MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to North Texas Tollway Authority's First Tier Revenue Refunding Bonds Series 2020A and 2020B and A2 to Second Tier Revenue Refunding Bonds Series 2020C, outlook is stable

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New York, September 17, 2020 -- Moody's Investors Service, ("Moody's") has assigned an A1 to North Texas Tollway Authority, TX (NTTA) $186.6 million First Tier Revenue Refunding Bonds, Series 2020A and $518.3 million First Tier Taxable Revenue Refunding Bonds, Series 2020B and an A2 to the $53.3 million Second Tier Revenue Refunding Bonds, Series 2020C. NTTA also has $5.63 billion of parity first tier bonds rated A1, $2.5 billion of parity second tier bonds rated A2, and $50 million of subordinate lien bonds rated Baa1. The authority's rating outlook remains 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 combined with automatic biennial toll increases will produce strong revenue growth after the outbreak of coronavirus. Total debt service coverage ratios (DSCRs), on Moody's net revenue basis, will recover from the loss of demand during the coronavirus outbreak to exceed 1.3x by fiscal 2023. Lower debt service requirements in the next few years provided by the proposed Series 2020 refunding bonds allow NTTA to meet the rate covenant. The authority maintains ample liquidity ($610 million of unrestricted cash and investments as of July 31, 2020) that provides flexibility to manage through the outbreak in the event that revenues are deemed insufficient to meet outstanding obligations as traffic begins to slowly return.

NTTA's leverage is elevated but will moderate as revenues grow and debt steadily amortizes. Adjusted debt to operating revenue has decreased to 9.8x based on fiscal 2019 results and will fall below 8.0x by fiscal 2023 if the revenue reverts to the long-term potential. The authority maintains the ability to fund its five-year growth needs without additional debt and minimal reduction in liquidity, however, the authority has reduced its capital spending plan substantially by delaying several construction and IT related projects, creating a sizable cash infusion to bolster liquidity in the event that it must be relied upon as a mitigant to the ramifications of the pandemic. The ratings are further supported by the authority's continued adherence to its Strategic Refinance Plan, capitalizing on low interest rate margins supported by current and prior reductions in annual debt service requirements and elimination of variable rate debt and swaps. This refunding itself will realize approximately $128 million in net present value savings, mostly recognized in fiscal year 2021 when coverage will stress as a result of the reduced transactions and revenues.

The A1 first tier rating is based on the senior security pledge and DSCR of 1.8x in fiscal 2019. The A2 second tier rating is based on the second tier pledge of revenue and weaker debt service reserve requirement. 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 rapid and widening spread of the coronavirus outbreak are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The toll road sector has been significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. As a result of the epidemic, already existing trends of lifestyle changes may accelerate, such as an increase in remote working and teleconferences that could negatively impact traffic volumes and reduce profits for toll roads.

OUTLOOK

The stable outlook reflects Moody's view that ample liquidity will remain to manage through the reduced demand from the coronavirus-caused closures and a protracted economic recovery.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-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 OF THE RATINGS

-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 and the second tier DSRF equal to one-half of average annual debt service.

USE OF PROCEEDS

The Series 2020A, Series 2020B and Series 2020C bonds will be used to refund all or a portion of the outstanding NTTA Series 2010A, 2011B, 2012A, 2012B, 2012D, 2014A and 2019A. The refunding will realize net present value savings in addition to reducing debt service costs in fiscal year 2021 to 2022, allowing NTTA to better navigate the financial ramifications of the coronavirus pandemic.

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 141 miles in length and with 1,145 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 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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