

**Summary:**

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

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### Credit Profile

US\$266.25 mil first tier rev rfdg bnds ser 2011B due 01/01/2038

<i>Long Term Rating</i>	A-/Stable	New
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
<b>North Texas Tollway Auth</b>		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to the North Texas Tollway Authority's (NTTA or the authority) \$266.25 million series 2011B first-tier revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'A-' long-term and underlying ratings (SPUR) on NTTA's \$6.1 billion first-tier system revenue bonds and its 'BBB+' long-term rating on the authority's \$1.1 billion second-tier revenue bonds. Finally, Standard & Poor's affirmed its 'AAA/A-1+' rating on NTTA's series 2009D variable-rate first-tier system revenue refunding bonds. The outlook, where applicable, is stable.

The 'BBB+' rating reflects our view of the bonds' subordinate status. The 'AAA' rating on the series 2009D bonds reflects the application of our joint criteria using low correlation between the bonds' 'A-' SPUR and an irrevocable direct-pay letter of credit (LOC) provided by JPMorgan Chase Bank N.A. (AA-/Stable/A-1+). The LOC will expire June 30, 2014, unless terminated earlier.

The 'A-' rating on the authority's first-tier bonds reflects our view of the highly leveraged system of toll facilities that increasingly relies on higher traffic and revenue growth levels to support adequate senior- and subordinate-lien projected debt service coverage under moderate downside stress scenarios.

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 (PGBT EE), the Lewisville Lake Toll Bridge (LLTB), and the Sam Rayburn Tollway (SRT) project (subject to the Texas Department of Transportation's [TxDOT's] reversionary interest after 50 years). NTTA is not entitled to collect revenues from the SRT project until the service-commencement date for each segment. Segments 1, 2, 3, and 4 have been opened as of July 2006, September 2008, September 2009, and December 2010, respectively, and turned over to the authority for toll collections. Officials still expect segment 5 to open on time in January 2012. The PGBT EE remains under budget and is still on schedule, with an expected December 2011 opening date.

The rating reflects what we consider to be 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 non-tolled alternatives;

- Demonstrated demand for the existing system, particularly the DNT and the PGBT, with systemwide average annual growth in transactions and toll revenues from 2005 to 2010 of 7.3% and 16.3%, respectively;
- Historically strong demographic trends and favorable traffic characteristics, with projected population and employment levels that should support the aggressive systemwide tolling regime the authority has adopted;
- Increased system diversification with the SRT toll facility that management projects will account for approximately 23% of system revenues after its ramp-up in 2015, at which time DNT and PGBT will account for approximately 38% and 33% of system revenues, respectively; and
- A base case financial forecast with good first-lien debt service coverage (DSC) that we expect will average 1.56x (a minimum of 1.50x) from 2011 to 2020. Sensitivity tests indicate that the financing plan provides an up to a 16% reduction in net revenues in each year over the base case while still meeting first- and second-tier debt service coverage, which we consider adequately flexible.

The authority's high debt burden from acquiring and constructing the SRT facility offsets these strengths, in our view. NTTA has approximately \$7.8 billion in first-tier, second-tier, third-tier, and subordinate debt outstanding, of which approximately 79% (\$6.1 billion) are first-tier system revenue bonds. The authority has a limited ability to incur additional parity senior debt at the current rating.

On May 11, 2010, the authority issued \$400 million of subordinate bonds that are secured by net revenues in the capital improvement fund (CIF) bond payment account. We do not rate these bonds, which the NTTA issued to support the PGBT Western Extension (PGBT WE) and the Chisholm Trail Parkway (the parkway). Such bonds are subordinate to the NTTA's existing debt obligations, which are secured under the trust agreement and the Intermodal Surface Transportation Efficiency Act (ISTEA) loan.

In our opinion, additional credit concerns include:

- General risks associated with accurately forecasting traffic and revenues on a new tolled facility, particularly one that relies on economic growth, residential and commercial development, and ongoing and inflation-indexed toll increases throughout the acquisition term;
- NTTA's dependence on the DNT and PGBT for approximately 45% and 35% of system revenues, respectively;
- The potential dilution of coverage levels by leveraging existing cash flows to fund additional projects;
- A high overall toll structure, which increased to 15.3 cents per mile for electronic transactions on July 1, 2011, and will increase every two years based on an annual increase of 2.75% for all roads except PGBT EE, which will grow at 3.00% annually;
- A dependence on system revenue growth to cover escalating debt service requirements. Based on the authority's current financial projections, net first-tier debt service (net of a Build America Bond or BAB subsidy payment) will increase to a peak of \$709 million by 2036 from approximately \$285 million in fiscal 2012. Capital appreciation bonds currently make up 9% of total debt and put bonds make up 7% of total debt; and
- The inherent risks related to the ongoing construction and the likely extensions of the NTTA's existing facilities and other new toll facilities.

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 all first-tier bonds outstanding;

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- 1.20x scheduled debt service requirements on all first- and second-tier bonds outstanding; or
- 1.00x scheduled debt service requirements on all first-, second-, and third-tier bonds outstanding, plus all remaining authority obligations secured by net revenues.

The 2011B bonds will refund all or a portion of the NTTA's sub-series 2008E-2 put bonds, series 1997A, series 1998 and series 2003A bonds and will fund the cost of issuance and any required reserves.

Audited toll revenue for fiscal 2010 was \$366.6 million, up 26% relative to fiscal 2009. NTTA system transactions for fiscal 2010 totaled 481.9 million, up 6% from 2009. Fiscal 2010 first-tier debt service coverage, based on audited results, was 1.83x while first- and second-tier debt service coverage was 1.72x. This calculation includes the subsidy related to the BABs as revenue rather than an offset to debt service.

Overall, Standard & Poor's views the NTTA's credit quality as highly leveraged and dependent on growth -- of both toll rates 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 that we performed, the projected financial performance demonstrated resiliency for certain downside assumptions. The system's size and strength and the higher toll-setting flexibility it affords can support a highly leveraged profile, assuming management adjusts toll rates accordingly to maintain financial margins. NTTA has a limited ability to incur additional parity senior debt at its current rating. We also expect that the authority will manage system operations such that it will continue to produce excess cash to fund a portion of its capital needs.

## Outlook

The stable outlook reflects our assessment of the demonstrated demand for NTTA and the favorable demographics that support a more aggressive tolling regime. The outlook also reflects our assumption that traffic and revenue will be at or near projected levels. We have also incorporated lower traffic and revenue scenarios and NTTA's potential additional debt plans into the ratings; however, should economic conditions erode significantly or the authority delay planned toll increases (resulting in a sustained decline in financial metrics), the rating would face pressure. Any significant additional parity senior-lien debt beyond what is already planned could prompt us to lower the rating, depending on the debt issuance's structure and the expected associated revenues.

## Related Criteria And Research

- USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

Ratings Detail (As Of November 4, 2011)		
North Texas Tollway Authority		
<i>Long Term Rating</i>	A-/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
North Texas Tollway Authority 1st tier		
<i>Long Term Rating</i>	A-/Stable	Affirmed
North Texas Tollway Authority 1st tier		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed

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**Ratings Detail (As Of November 4, 2011) (cont.)**

North Texas Tollway Authority 1st tier (wrap of insured) (MBIA & ASSURED GTY) (SEC MK)		
<i>Unenhanced Rating</i>	A-{SPUR}/Stable	Affirmed
North Texas Tollway Authority 1st tier (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A-{SPUR}/Stable	Affirmed
North Texas Tollway Authority 1st tier (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 (BHAC) (SEC MKT)		
<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
<b>North Texas Tollway Authority (Dallas North Tollway Sys) toll sys</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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