Fitch Ratings-New York-10 April 2017: Fitch Ratings has upgraded the ratings on the following toll-supported revenue bonds of regional authorities in Texas based on the enhancement provided by toll equity loan agreements (TELA) between the issuer and the Texas Department of Transportation (TxDOT):

--$1.777 billion in Grand Parkway Transportation Corporation (GPTC) Grand Parkway System toll revenue bonds, series 2013B and 2013E, to 'AA' from 'AA-';
--$1.378 billion in North Texas Tollway Authority (NTTA) special project system revenue bonds, series 2011A-E, to 'AA' from 'AA-'.

The Rating Outlook is Stable.

SECURITY
The bonds are limited obligations of the issuing entities payable from toll receipts and other revenues of each system under their trust agreements, as well as by advances from TxDOT under their respective toll equity loan agreements, subject to biennial legislative appropriation; this TxDOT enhancement provides the basis for the 'AA' rating.

KEY RATING DRIVERS
The upgrade of the ratings for the TELA-backed bonds reflects application of Fitch’s revised criteria for U.S. state and local government credits, released on April 18, 2016. The revised criteria include more focused consideration of the strength of the TXDOT funding commitment and the ultimate link to the credit quality of the state itself, reflected in Texas' 'AAA' Issuer Default Rating (IDR).

CREDIT ENHANCEMENT FROM TXDOT: The rating is based on the credit
enhancement provided by TxDOT in the form of TELA advances sufficient in each year to cover debt service and certain other eligible expenses due in that year. To date, the TELA enhancement has only been made available to certain Texas highway projects carried out by the Grand Parkway Transportation Corporation (GPTC), in Houston, and the North Texas Tollway Authority (NTTA), in Dallas-Ft. Worth.

SUBJECT TO STATE APPROPRIATION: TxDOT's obligation to provide TELA advances is subject to biennial legislative appropriation, linking the credit quality of the enhancement to the State of Texas' 'AAA' IDR. The enhancement is provided by TXDOT and any draws for advances would be on parity with other TxDOT operating commitments, warranting the two-notch distinction from the state's 'AAA' IDR.

EXPECTATION OF TIMELY PAYMENT: For GPTC and NTTA bonds carrying the TELA enhancement, timing and draw procedures provide sufficient time to cure any deficiency prior to debt service payment.

SIZABLE STATE HIGHWAY FUND RESOURCES: Advances, if needed, would derive from the state highway fund (SHF), TxDOT's main operating fund into which various transportation-related taxes and fees are constitutionally dedicated. Baseline SHF revenues have generally been slow growing, although recent state actions are materially expanding resources over time. Senior SHF revenue bonds and the ability to establish obligations senior to the TELA draws could narrow the resources available for TELA draws, and transportation spending needs in Texas are likely to outpace available resources over the long term, but Fitch expects resources to remain sizable.

GENERAL STATE CREDIT QUALITY: Texas' long-term 'AAA' IDR reflects an economy that continues to grow despite the severe contraction in the state's globally important energy sector, its conservative financial operations and the state's low long-term liability burden.

RATING SENSITIVITIES

SUFFICIENT STATE HIGHWAY FUND RESOURCES: The ratings are
sensitive to the sufficiency of SHF resources to support the current TELA and parity commitments. Narrowing of available resources or a material expansion of senior or parity obligations with a claim to the SHF could pressure the ratings.

STATE CREDIT QUALITY: The ratings are sensitive to changes in the State of Texas' 'AAA' IDR, to which they are linked, or to changes in TxDOT's commitment to and administration of the enhancement program.

CREDIT PROFILE
TELA enhancement has been used for toll-supported revenue bonds issued by the NTTA and GPTC as part of larger financing for three highway projects to date, the George W. Bush Parkway Western Extension and Chisholm Trail Parkway in metropolitan Dallas-Ft. Worth, and a 55-mile portion of the Grand Parkway, outside of Houston.

TxDOT's commitment to enhance TELA bonds was sized upon initial financing at specified total and annual amounts for each project, $6 billion in aggregate for the two NTTA projects, and $9.6 billion for GPTC. In each year, if toll and other pledged revenues of the respective system are insufficient the TELA provides that the trustee may draw upon TxDOT's resources to cover eligible expenses, including TELA-eligible debt service and certain operating and other expenses up to a maximum annual amount, as defined in the trust agreements for each project. No draws have been made to date for either of the two NTTA projects, nor for the GPTC project.

TxDOT's commitment to enhance TELA bonds is subject to legislative appropriation, linking the rating to the state's IDR. TxDOT covenants to submit an appropriation request to the legislature as part of its biennial budget submission to fulfill its obligation under each TELA agreement. Failure of the legislature to appropriate is not an event of default.

ENHANCEMENT SIZED TO DEBT SERVICE AND OPERATING EXPENSES
The TELA enhancement for each project extends at a minimum through the life of the outstanding bonds, 2047 for the NTTA series and 2054 for the GPTC series. Within the aggregate maximum TELA commitment for each
project, annual and aggregate maximum advances are established in varying amounts each year at levels intended to cover eligible categories of planned expenses within the flow of funds. These include annual debt service for the TELA-enhanced series, and certain operating, maintenance and capital expenses for both projects.

The $6.02 billion originally committed for NTTA ranged annually from $31.1 million in FY 2013 to a high of $244.7 million in FY 2028. The $9.6 billion originally committed for GPTC ranged annually from $17.6 million in FY 2015 to $580 million in FY 2052. With cost savings on the projects, TELA-eligible costs are now lower than originally planned.

**SUFFICIENT TIMING IN EVENT OF DEFICIENCY**
The project financing structures and flows of funds in each project's respective master custodial agreements differ, although the basic features of the TELA enhancement remain the same.

The mechanisms for a TELA draw provide sufficient time to cure a deficiency in the TELA-eligible debt service accounts. In the event of an insufficiency in revenues to fully cover TELA-eligible debt service four days before the payment date (in the case of NTTA) or five days (in the case of GPTC), the trustee would sweep balances from certain subordinated accounts, including reserves, then request a draw from TxDOT. TxDOT is required to advance funds up to the maximum annual amount within three days. Any draw on the TELA enhancement would become a subordinate obligation within the projects' flow of funds.

TxDOT maintains close oversight of TELA-supported projects in both construction and operations phases and would have considerable advance notice and the means to pursue corrective action before a TELA draw would be needed. Both NTTA and GPTC must maintain tolls in effect sufficient to cover project needs. In the case of the NTTA projects, TxDOT maintains an ability to step in through the life of the project. In the case of the Grand Parkway project, GPTC is closely linked to TxDOT, with governance and staffing by TxDOT and considerable TxDOT oversight of budgeting and financial performance.
SIZABLE SHF RESOURCES FOR TRANSPORTATION
The SHF, as the general operating fund of TxDOT and the main source of state transportation funding, is the source of funding for any TELA draw. Texas' constitution requires that about 75% of motor fuel taxes, motor lubricant taxes and vehicle registration fees be dedicated to transportation. Any related federal reimbursements are also dedicated. Certain other receipts are deposited to the SHF but are not constitutionally dedicated.

Fitch generally views tax revenues generated from transportation sources as being slow-growing. Given the state's pressing transportation needs, Texas has made several changes to augment available resources. These include a 2015 statutory change discontinuing SHF funding for operations of certain other departments and submitting to voters two successive measures to shift other tax revenues to the SHF. These include a 2014 ballot measure diverting a portion of oil and gas excise tax revenues to the SHF that formerly had flowed to the state's rainy day fund, and a 2015 measure dedicating $2.5 billion in statewide sales tax collections in excess of $28 billion to the SHF beginning in fiscal 2018 and dedicating 35% of motor vehicle sales, use or rental taxes to the SHF beginning in fiscal 2020. The additional oil and gas excise tax and sales tax revenues cannot be used for toll projects, but Fitch views them as providing additional flexibility to TxDOT to cover its operating needs.

The state comptroller's biennial revenue estimate, released in January 2017, forecasts that SHF state revenues rise 50% in fiscal 2018, to $7.4 billion, driven by the allocation of $2.2 billion in sales taxes under the 2015 voter measure, and another 7.5% in fiscal 2019, to nearly $8 billion. Texas' budget for the upcoming biennium continues to be deliberated, although one proposal would delay the scheduled allocation of sales taxes by one year to support general fund needs.

TELA DRAWS ON SHF SUBORDINATE
State transportation appropriations are generally for categories of expenditure, and thus TxDOT has significant flexibility to plan for an expected draw during each fiscal year, including deferring, reducing or eliminating construction lettings for projects and deferring or reducing the amounts of planned pass-through financing commitments.
TELA draws from the SHF would be subordinate to payment of various senior debt obligations and on parity with basic operating expenses and certain other commitments. Debt programs with a priority claim include first-tier SHF revenue bonds, potential subordinate SHF revenue bonds, subordinate lien short-term obligations, and highway tax and revenue anticipation notes.

First-tier SHF revenue bonds were authorized and issued up to their $6 billion maximum, with almost $4.6 billion outstanding as of Dec. 31, 2016. Additional bonds are limited by a 4x ABT and a 10x statutory ABT. To date, TxDOT has not pursued additional liens, but Fitch views this as possible at a future date given the state's transportation needs.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Marcy Block
Senior Director
+1-212-908-0239

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.
Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch’s ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the
report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only.
Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.