MOODY'S
INVESTORS SERVICE

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

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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

The Series 2019A and Series 2019B bonds will be used to refund the outstanding NTTA 2005C, 2009A, 2009C and 2014C System 1st Tier Bonds and the Series 2010B-2 (BABs) Subordinate Lien Bonds, eliminate the Series 2014 variable rate risk from NTTA's debt profile, realize NPV savings, and to continue the mission of the Strategic Refinancing Plan.

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.

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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

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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