

RatingsDirect®

Summary:

North Texas Tollway Authority; Note; Toll Roads Bridges

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Summary:

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| Credit Profile | | |
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| US\$448.8 mil sys rev & rfdg bnds, second tier bnds ser 2021B due 12/31/2050 | | |
| <i>Long Term Rating</i> | A/Stable | New |
| US\$402.6 mil sys rev & rfdg bnds, first tier taxable bnds ser 2021A due 12/31/2042 | | |
| <i>Long Term Rating</i> | A+/Stable | New |
| North Texas Tollway Auth commercial paper nts ser A dtd 05/20/2020 due 05/25/2021 | | |
| <i>Short Term Rating</i> | SP-1 | Affirmed |
| North Texas Tollway Auth () TOLLFAC (BHAC) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |

Rating Action

S&P Global Ratings has revised its outlook to stable from negative on the North Texas Tollway Authority (NTTA). Additionally, we assigned our 'A+' rating to NTTA's pro forma \$402.6 million first-tier revenue refunding bonds, series 2021A, and our 'A' rating to its pro forma \$448.8 million second-tier revenue refunding bonds, series 2021B. At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on NTTA's first-tier toll road revenue bonds and our 'A' long-term rating and SPUR on its second-tier revenue bonds outstanding.

The outlook revision reflects our view of the improvement in NTTA's monthly toll transactions to near 100% of its 2019 levels following a material drop in traffic during 2020. The recovery in traffic will allow the system to achieve future financial metrics consistent with historical results. Furthermore, the stable outlook reflects the current lack of additional debt needs and our expectation that financial metrics will be maintained at levels consistent with the current rating.

Additionally, we affirmed our 'SP-1+' short-term rating on NTTA's first-tier system revenues notes, privately placed with the Royal Bank of Canada (RBC) as well as our 'SP-1' short-term rating on its second-tier system revenue notes, privately placed with JP Morgan (JPM), although we note that these will be taken out with long-term debt as part of the series 2021B bonds. NTTA is evaluating its options for the RBC notes prior to their maturity date later this year.

NTTA drew down the full amount--\$200 million--of the short-term notes with JPM as well as the full amount--\$100 million--of the short-term notes with RBC. Both notes were issued for near-term capital projects to make available other sources of NTTA liquidity for operations if needed, given the material decline in toll revenues due to COVID-19. As of March 31, NTTA had \$565.8 million in unrestricted reserves and \$771.2 million in restricted reserves designated for capital projects, maintenance, and debt service.

Net revenues of the NTTA toll system secure the authority's toll road revenue bonds. A combined \$457.3 million

cash-funded debt service reserve fund provides additional liquidity to bondholders. The 'A' rating on the second-tier bonds reflects our view of their subordinate lien on the net revenues. Currently, NTTA has a consolidated, all-inclusive debt position of approximately \$9.2 billion in principal outstanding.

The 2021A bond proceed will be used to refund all or a portion of the authority's first-tier revenue bonds, series 2008I and 2014A, for estimated interest savings. The 2021B bond proceeds will be used to refund the Texas Department of Transportation (TxDoT) loan for the 360 Tollway and transfer that asset to the NTTA system, which it currently is not part of, and to refund the \$200 million in outstanding commercial paper that was privately placed with JPM in 2020. The 360 Tollway is a 9.7-mile toll road between Camp Wisdom Road/Sublett Road in southern Tarrant County and SH 287 in northwestern Ellis County and northeastern Johnson County. Built as a public/public partnership between TxDoT and NTTA, it opened to traffic on May 11, 2018. In 2019, there were approximately 19 million transactions on 360 Tollway, which equated to roughly 2% of total NTTA system transactions for the year.

The NTTA system consists of the Dallas North Tollway, the Addison Airport Toll Tunnel, the Mountain Creek Lake Bridge, the President George Bush Turnpike (PGBT), the Lewisville Lake Toll Bridge, the Sam Rayburn Tollway project (subject to the TxDoT's reversionary interest after 50 years), the Chisholm Trail Parkway (CTP), and PGBT Western Extension (PGBT WE). The CTP and PGBT WE were previously part of the Special Projects System and were incorporated into the NTTA system in 2017. After the close of this transaction, the 360 Tollway will be fully incorporated into the NTTA system as well.

Credit overview

The short-term ratings reflect our view of NTTA's low market risk, first-tier toll revenue bond rating for the 'SP-1+' and second-tier toll revenue bond rating for the 'SP-1', and strong legal authority to issue takeout debt.

The long-term ratings reflect our view that management will continue to implement or maintain such measures as either reducing expenses or deferring capital spending, or use other means to maintain financial metrics that we believe will still be consistent with the current rating and near 2019 historical levels. The long-term rating on the second-tier bonds reflects our view of their subordinate lien on the net revenues.

The ratings reflect our opinion of the authority's very strong enterprise risk profile and strong financial risk profile. Our enterprise risk profile assessment reflects NTTA's very strong market position due to the toll road's important role as a regional urban infrastructure provider, with critical transportation links in the Dallas-Fort Worth-Arlington (DFW) metropolitan statistical area (MSA), despite the existence of nontolled alternatives. Our financial risk profile assessment reflects our expectation regarding COVID-19 and associated negative effects on tolled traffic levels and financial performance in fiscal 2020, but that NTTA will be able maintain future financial metrics beyond 2020 at or near pre-pandemic levels due to relatively quick recovery in traffic levels; lack of new-money borrowing needs; and management's ability to adjust operating expenditures, defer capital spending, and increase toll rates, if needed, beyond scheduled biennial adjustments.

NTTA reports that unaudited system traffic levels for the 2020 fiscal year declined by 23.2% compared to 2019, which is roughly line with S&P Global Ratings' updated, baseline activity estimates for the U.S. toll road sector. For additional information, see "Updated Activity Estimates For U.S. Transportation Infrastructure Show Public Transit And Airport Operators Still Face A Long Recovery," published Jan. 13, 2021, on RatingsDirect. Year-to-date transactions through

March 2021 are tracking 1.7% ahead of budget and that includes a drop in volume in February during the severe winter storm in Texas, which paused economic activity for part of the month. Monthly data for March 2021 far outperformed the same month in 2020 and approached levels observed in March 2019, indicating progress toward a more stable traffic environment. As a result of the effects of COVID-19 and associated effects, the continued recovery of toll transactions for 2021 fiscal year results will largely depend on the progress of vaccination efforts nationwide, improvements in the regional and national economic forecasts, and the effectiveness of the federal stimulus.

The baseline forecast included in the consultant's updated traffic and revenue report, prepared by CDM Smith in March 2021, provided in connection with this bond issuance, assumes annual transaction growth of 3.2% for toll transactions during 2021-2030, with a recovery to 2019 traffic and revenue levels by 2023, which is close to S&P Global Ratings' updated U.S. January 2021 baseline activity estimates. We consider NTTA's forecast reasonable, which assumes no changes in its existing toll rate policy over the forecast period with toll revenues reaching \$994 million by 2023, \$1.17 billion by 2026, and \$1.3 billion by 2029. The independent report also analyzed the effects of remote working on traffic trends associated with COVID-19. While it is acknowledged that this may grow and possibly reduce road travel demand, its effect will be constrained by the number of occupations for which this practice works effectively.

We will continue to monitor NTTA's current and near-term capital and budgetary funding requirements as management continues its mitigation measures to counter lower traffic levels and reductions in toll revenues.

Key credit strengths, in our opinion, reflect NTTA's:

- Role as a regional urban infrastructure provider, with critical transportation links within the vibrant DFW MSA, despite nontolled alternatives;
- Very strong management and governance, reflecting its history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently to address material variances, and very capable staff that has considerable experience operating a regional tolling agency; and
- Lack of new-money borrowing needs.

Key credit weaknesses, in our view, are:

- A material decline in NTTA's toll transactions by 23% in 2020 compared to 2019 due to stay-at-home and social-distancing restrictions associated with the COVID-19 pandemic; and
- NTTA's escalating debt service requirements, with level all-in debt service not occurring until 2024.

Environmental, social, and governance factors

We analyzed NTTA's environmental, social, and governance (ESG) risks and opportunities relative to its market position, management and governance, and financial performance and determined that all are in line with our view of the sector standard. Although the abatement of health and safety risks stemming from the pandemic reflected in the easing of social restrictions somewhat contributes to the outlook revision, long-term credit stability is supported by favorable demographic trends and economic growth within the DFW MSA and represents a social opportunity that generates demand for the system.

Stable Outlook

Downside scenario

We could lower the rating if the authority were to issue significant additional debt that materially lowers projected debt service coverage (S&P Global Ratings-calculated) and debt to net revenue or that current traffic recovery trends reversed, resulting in the same.

Upside scenario

We do not anticipate raising the rating during the two-year outlook period given our expectation that financial metrics will remain near current levels.

Credit Opinion

In our opinion, the DFW region's economic performance and therefore, NTTA's traffic trajectory in 2021 is expected to mirror national trends. An improving vaccination outlook, a faster reopening schedule, and the \$1.9 trillion stimulus provided by the American Rescue Plan (ARP), which, along with a \$900 billion package approved in December under Coronavirus Response and Relief Supplemental Appropriations Act, all point to a seismic positive shift in the U.S. economic outlook relative to where it stood in December 2020. Our forecasts of real GDP growth for 2021 and 2022 are 6.5% and 3.1%, respectively, up from 4.2% and 3.0% in our December report, with our 2021 GDP forecast targeting the highest reading since 1984. As a result, with both business and consumer confidence well into expansion territory, we believe the U.S. economy is on the mend and now view the risk for recession over the next 12 months at 10%-15%, down sharply from the 20%-25% range in January, and around the U.S. economy's long-term unconditional recession risk average of 13%. (For more information see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.)

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- How We Apply Our Global Not-For-Profit Transportation Infrastructure Enterprise Criteria, Nov. 2, 2020

Ratings Detail (As Of April 15, 2021)

| | | |
|--|-----------------|-----------------|
| North Texas Tollway toll rds br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier (AGM) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |

Ratings Detail (As Of April 15, 2021) (cont.)

| | | |
|---|-----------------|-----------------|
| North Texas Tollway Authority 1st tier (AMBAC) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier (ASSURED GTY) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier (MBIA) (National) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Authority 2nd tier | | |
| <i>Long Term Rating</i> | A/Stable | Outlook Revised |
| North Texas Tollway Auth sys rev revolving notes ser A due 06/05/2021 | | |
| <i>Short Term Rating</i> | SP-1+ | Affirmed |
| North Texas Tollway Auth sys 1st tier (AGM) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth sys 1st tier (BAM) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds br (BAM) | | |
| <i>Unenhanced Rating</i> | A(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds br (BAM) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds & br | | |
| <i>Long Term Rating</i> | A+/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds & br | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds & br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds & br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth toll rds & br (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth Sys First Tier Rev Rfdg Bnds | | |
| <i>Long Term Rating</i> | A+/Stable | Outlook Revised |
| North Texas Tollway Auth Sys 2nd tier (AGM) | | |
| <i>Unenhanced Rating</i> | A(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth (AGM) | | |
| <i>Unenhanced Rating</i> | A(SPUR)/Stable | Outlook Revised |

Ratings Detail (As Of April 15, 2021) (cont.)

| | | |
|--|-----------------|-----------------|
| North Texas Tollway Auth (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |
| North Texas Tollway Auth 1st tier | | |
| <i>Long Term Rating</i> | A+/Stable | Outlook Revised |
| North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT) | | |
| <i>Unenhanced Rating</i> | A+(SPUR)/Stable | Outlook Revised |

Many issues are enhanced by bond insurance.

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