MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to North Texas Tollway Authority's First Tier Taxable Revenue Refunding Bonds Series 2021A and A2 to Second Tier Revenue Refunding Bonds Series 2021B, outlook is stable

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New York, April 19, 2021 -- Moody's Investors Service, ("Moody's") has assigned an A1 to North Texas Tollway Authority, TX (NTTA) $402.9 million System Revenue and Refunding Bonds First Tier Taxable Bonds, Series 2021A and an A2 to the $448.8 million System Revenue and Refunding Bonds Second Tier Bonds, Series 2021B. NTTA also has $6.6 billion of parity first tier bonds rated A1, $2.3 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. NTTA's adherence to its biennial toll rate increase policy through the pandemic also supports the ratings. Total debt service coverage ratios (DSCRs), on Moody's net revenue basis, will recover from the low of 1.0x in 2020 during the worst of the coronavirus outbreak, to reach 1.3x by 2023 if NTTA's traffic consultant's forecast is met. Moody's notes that the traffic consultant's forecast is appropriately conservative with respect to on-going work from home assumptions and that future revenue could outperform the forecast if work patterns revert more closely to pre-pandemic behaviors.

Lower debt service requirements in the next few years provided by the Series 2020 and proposed Series 2021 refunding bonds allow NTTA to meet the rate covenant while traffic remains depressed during the recovery. The authority maintains ample liquidity ($565 million of unrestricted cash and investments as of March 31, 2021) that provides flexibility to manage through slower than expected recovery.

NTTA's leverage, as measured by adjusted debt to operating revenue, is elevated because of the loss of revenue during the pandemic, but will moderate as revenue grow and debt steadily amortizes. Adjusted debt to operating revenue had decreased to 9.8x based on fiscal 2019 results but will increase to around 10.5x by the end of 2021. However, leverage will fall below 8.0x by fiscal 2024 if the traffic forecast is met. 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 $135 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 ratings also consider the revenue accretive addition of the 360 Tollway project in Tarrant and Ellis Counties. Series 2021B bonds will be issued to refund the non-system secured loan from Texas Department of Transportation. The 360 Tollway produced net operating revenue of $11.5 million in 2020 during the coronavirus outbreak in only its second year of operations. Debt service associated with the facility will remain below $11.8 million annually before increasing to $17.4 million in 2024, when the traffic consultant expects revenue to increase to $25.1 million.

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.

RATING 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 2021A bonds will be used to refund all or a portion of the outstanding NTTA Series 2008I, 2014A. The Series 2021B to refund the TxDOT Highway 360 Loan and commercial paper. The refunding will realize net present value savings in addition to reducing debt service costs in 2022 to 2023, allowing NTTA to better navigate the financial ramifications of the coronavirus pandemic recovery.

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 center lane miles in length and with 1,145 lane miles. Traffic is predominantly two axle passenger cars with only 2.7% multi-axle vehicles. Concurrent with the sale of the Series 2021B, NTTA will add the 360 Tollway to the system, adding 10 center lane miles and 39 lane miles.

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.

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