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## Summary:

# North Texas Tollway Authority; Note; Toll Roads Bridges

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## Summary:

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### Credit Profile

US\$518.285 mil sys rev rfdg bnds, first tier taxable bnds ser 2020B due 02/01/2052		
<i>Long Term Rating</i>	A+/Negative	New
US\$186.565 mil sys rev rfdg bnds, first tier bnds ser 2020A due 02/01/2038		
<i>Long Term Rating</i>	A+/Negative	New
US\$53.33 mil sys rev rfdg bnds, second tier bnds ser 2020C due 02/01/2027		
<i>Long Term Rating</i>	A/Negative	New
North Texas Tollway Authority 2nd tier		
<i>Long Term Rating</i>	A/Negative	Affirmed
North Texas Tollway Auth 1st tier		
<i>Long Term Rating</i>	A+/Negative	Affirmed

## Rating Action

S&P Global Ratings assigned its 'A+' rating to the North Texas Tollway Authority's (NTTA) pro forma \$705 million first-tier revenue refunding bonds, series 2020A-B, and its 'A' rating to NTTA's pro forma \$53 million second-tier revenue refunding bonds, series 2020C. At the same time, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on NTTA's first-tier toll road revenue bonds and its 'A' long-term rating and SPUR on the authority's second-tier revenue bonds outstanding. The outlook is negative, where applicable.

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 the 'SP-1' short-term rating on NTTA's second-tier system revenue notes, privately placed with JP Morgan (JPM).

NTTA recently 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 in order 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 July 31, NTTA has \$610.6 million in unrestricted reserves and \$836.4 million in restricted reserves designated for capital projects, maintenance, and debt service. Both notes mature in one year from the time of issuance, at which point management plans to pay off the notes in full or take them out with long-term debt issued on the first tier for the RBC notes and second tier for the JPM notes.

Net revenues of the NTTA toll system secure the authority's toll road revenue bonds. A combined \$454.7 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. Post-issuance, NTTA will have a consolidated, all-inclusive debt position approximately \$9.04 billion in principal outstanding and \$9.76 billion, including accreted

interest.

Bond proceeds will be used to refund all or a portion of the authority's first-tier revenue bonds, series 2011B, 2012A, 2012B, 2012D, 2014A, and 2019A, as well as its second-tier revenue bonds, series 2010A, for estimated interest savings in order to reduce debt service by approximately \$100 million in 2021 to maintain cash flow coverage levels compliant with NTTA's rate covenant. We view debt restructuring to realize short-term, up-front savings resulting in higher long-term debt service requirements as a credit risk in benign economic and operating environments. However, given our expectations regarding traffic and revenue recovery in the toll sector and NTTA's historically strong growth rates, we believe the restructuring is a prudent low-risk response by management to partially mitigate the near-term financial impacts of the COVID-19 pandemic on the system and can be accommodated at the current rating level.

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 Texas Department of Transportation'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.

### **Credit overview**

The short-term ratings reflects our view of NTTA's low market risk, second-tier toll revenue bond rating, 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, although lower than historical levels, we believe will still be consistent with the current rating. More specifically, we are expecting a material and sustained decline in toll revenues and traffic declines due to the COVID-19 outbreak and associated impacts for the remainder of 2020 in comparison to 2019, which could result in a downward rating action if we believe the NTTA's traffic levels and financial capacity will decline further or stagnate at lower levels longer than expected. The negative outlook reflects our opinion that the NTTA's financial metrics could be pressured as a result of severely or materially depressed or unpredictable vehicle traffic demand for 2020 and beyond that are beyond management's control. For additional information, see "Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic," published March 26, 2020, on RatingsDirect and "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020. 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 the 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 metropolitan statistical area, despite the existence of nontolled alternatives. Our financial risk profile assessment reflects our expectation that COVID-19 and associated impacts on tolled traffic levels will cause a drag on financial performance for the remainder of 2020, but that NTTA will be able maintain future financial metrics beyond 2020 at or near prepandemic 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 system traffic levels declined an estimated 57% in April 2020 versus the same month in 2019, and improved modestly to an estimated 41% down for the month of May year over year and have remained at about 25% down in June through August compared to the same three months in 2019. As a result of the effects of COVID-19 and associated impacts, the impact on traffic levels for the remaining months of 2020 will be largely dependent on the duration of the outbreak, local requirements for shelter-in-place or social distancing, and potential shifting behavioral trends in the near term.

The baseline forecast included in the consultant's traffic and revenue report done in connection with this bond issuance assumes an annual transaction growth of 4.8% for toll transactions during 2020-2030, with a recovery to 2019 traffic and revenue levels by 2023 and 2022, respectively, which is close to S&P Global Ratings' current U.S. April 2020 baseline activity estimates. We consider NTTA's forecast reasonable, which assumes over the forecast period no changes in NTTA's existing toll rate policy and does not include any assumptions regarding the availability of an effective COVID-19 vaccine, with toll revenues reaching 972 million by 2023, \$1.14 billion by 2026, and \$1.4 billion by 2029. The independent report also analyzed the effect of impacts such as remote working on traffic trends associated with COVID-19. While it is acknowledged that this may grow in the future 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 to manage its mitigation measures to counter historically lower traffic levels and reductions in toll revenues.

Key credit strengths, in our opinion, are:

- The system's role as a regional urban infrastructure provider, with critical transportation links within the vibrant Dallas-Fort Worth metropolitan area, despite nontolled alternatives;
- The NTTA's very strong management and governance, reflecting the authority's history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently to address material variances, and a very capable staff that has considerable experience operating a regional tolling agency; and
- The NTTA's lack of new-money borrowing needs.

Key credit weaknesses, in our view, are:

- A material decline in NTTA's toll transactions by 28% in from January-July 2020 compared to the same period in 2019 due to stay-at-home and social distancing restrictions associated with the COVID-19 pandemic;
- NTTA's potentially weaker-than-expected financial capacity from potentially experiencing materially depressed traffic levels beyond 2020 due to lingering stay-at-home and social distancing restrictions, changing work and commute habits due to the COVID-19 pandemic, or elevated unemployment levels from the pandemic-induced recession; and
- NTTA's escalating debt service requirements, with level all-in debt service not occurring until 2024.

## Environmental, social, and governance (ESG) factors

We analyzed NTTA's ESG risks 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. However, the NTTA is exposed to social risks related to COVID-19-related social distancing requirements to promote health and safety that are already causing material operating and financial pressures. We will continue to evaluate these risks as the situation evolves.

## Negative Outlook

### Downside scenario

We could lower the rating if we believe traffic levels will remain materially depressed for a period longer than our current expectation, suggesting a weaker market position or financial metrics that are consistent with a lower rating.

### Return to stable scenario

We could revise the outlook to stable in the next two years if we receive clarity on when and how well traffic levels recover and we believe NTTA's ability to maintain financial metrics consistent with the current rating is sustainable.

## Credit Opinion

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the pandemic and its effect on the economy and air travel. S&P Global Economics' current forecasts anticipate a slower recovery beginning in third-quarter 2020, ending at a negative 5.0% real GDP growth rate in 2020 and rebounding to 5.2% growth in 2021, a full percentage point weaker than our previous 2021 estimate of 6.2%. With this summer's national virus transmission rates rising to new peaks, uncertainty is elevated again. Several states have shut down parts of their economies and instituted new quarantine restrictions, which could erode the rebound in the third-quarter 2020 real GDP growth of 22.2% (annualized). The recovery remains fragile--in particular, because of uncertainty about the timing of an effective vaccine being readily available, fears of another wave of COVID-19, and the reluctance of surviving businesses to quickly rehire workers. Our economic forecasts and macro-credit implications associated with the pandemic assume a vaccine or effective treatment is widely available in the second half of 2021. (See "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," July 22, 2020, and "Economic Research: U.S. Real-Time Economic Data Continues To Paint A Mixed Picture" Aug. 14, 2020.)

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 16, 2020)		
North Texas Tollway toll rds br (BAM) (SECMKT) <i>Unenhanced Rating</i>	A(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed

Ratings Detail (As Of September 16, 2020) (cont.)		
North Texas Tollway Authority 1st tier ser 2008A (wrap of insured) (MBIA & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier (AMBAC)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier (ASSURED GTY)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Authority 1st tier (MBIA) (National) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
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 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)/Negative	Affirmed
North Texas Tollway Auth sys 1st tier (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds br (BAM)		
<i>Unenhanced Rating</i>	A(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds br (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds & br		
<i>Long Term Rating</i>	A+/Negative	Affirmed
North Texas Tollway Auth toll rds & br		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth Sys First Tier Rev Rfdg Bnds		
<i>Long Term Rating</i>	A+/Negative	Affirmed
North Texas Tollway Auth Sys 2nd tier (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Negative	Affirmed

**Ratings Detail (As Of September 16, 2020) (cont.)**

North Texas Tollway Auth (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Negative	Affirmed
North Texas Tollway Auth () TOLLFAC (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
North Texas Tollway Auth 1st tier ser 2008A (wrap of insured) (MBIA & ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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