

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa3 to North Texas Tollway Authority, TX's First Tier Revenue Refunding Bonds, Series 2024A and A1 to Second Tier Revenue Refunding Bonds, Series 2024B, outlook is stable

15 Aug 2024

New York, August 15, 2024 -- Moody's Ratings (Moody's) has assigned an Aa3 to North Texas Tollway Authority, TX's (NTTA) expected \$443.8 million First Tier Revenue Refunding Bonds, Series 2024A and an A1 to the expected \$688.3 million Second Tier Revenue Refunding Bonds, Series 2024B. NTTA also has \$5.7 billion of parity first tier bonds rated Aa3, \$2.6 billion of parity second tier bonds rated A1, and \$36.8 million of subordinate lien bonds rated A3. The authority's rating outlook remains stable.

RATINGS RATIONALE

The ratings reflect NTTA's growing revenue base, which supports moderating leverage and sustains the net revenue debt service coverage ratio through the remaining period of level annual debt service requirements. 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. Combined with automatic biennial toll increases, growing traffic will produce strong revenue growth. NTTA's adherence to its biennial toll rate increase policy through the pandemic and recent increase amid high inflation also supports the ratings. Debt service coverage ratios (DSCR) on all obligations will remain adequate around 1.4x over the next two years if NTTA's traffic consultant's forecast is met but will then begin to steadily increase since annual debt service requirements have leveled off. NTTA maintains sufficient cash that mitigates risks of future traffic declines in future shocks and also fully funds NTTA's current capital plan.

NTTA's improved leverage of 7.7x adjusted debt to operating revenue supports the ratings, but remains elevated compared to similarly sized peers. Leverage will moderate as annual amortization increases and with growing revenue, absent any

additional debt to fund projects outside of NTTA's current capital improvement plan.

The Aa3 first tier rating is based on the senior security pledge and expected DSCR of 2.32x in 2024. The A1 second tier rating is based on the second tier pledge of revenue and weaker debt service reserve requirement. The A3 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 A3 rating on subordinate debt additionally reflects the lack of a pledge of revenue and no debt service reserve.

RATING OUTLOOK

The stable outlook reflects our expectation that NTTA will achieve annual revenue growth in the mid-single digit percentage growth over the next several years to support a stable net revenue DSCR and improving leverage and that NTTA will not issue significant debt to fund any new projects.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Revenues continue to grow resulting in first tier net revenue DSCR above 3.0x and second tier net revenue DSCR above 1.75x
- Liquidity remains above 730 days cash on hand
- Total leverage declines to below 4.0x

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional debt issuances or revenue declines that lead to sustained DSCR of first tier bonds below 2.0x and first and second tier bonds below 1.3x
- Failure to implement planned toll increases necessary to produce projected debt service coverage levels
- Traffic and revenue growth no longer meets or 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 second tier DSRF equal to one-half of average annual debt service.

USE OF PROCEEDS

Proceeds of Series 2024A first tier bonds will be used to refund series 2015B, and open market tender Series 2020B and 2021A. Proceeds of Series 2024B will be used to refund Series 2015A second tier bonds.

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 151 center lane miles in length and with 1,190 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 May 2023 and available at <https://ratings.moodys.com/rmc-documents/403120>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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 on <https://ratings.moodys.com/rating-definitions>.

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