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North Texas Tollway Authority; Toll Roads Bridges

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Enterprise Risk Profile: Very Strong

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North Texas Tollway Authority; Toll Roads Bridges

Credit Profile

US\$688.29 mil sys rev rfdg 2nd tier bnds ser 2024B due 01/01/2037		
<i>Long Term Rating</i>	A+/Stable	New
US\$443.835 mil sys rev rfdg 1st tier bnds ser 2024A due 01/01/2045		
<i>Long Term Rating</i>	AA-/Stable	New
North Texas Tollway Auth toll rds & br		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
North Texas Tollway Auth tol rds & br		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the North Texas Tollway Authority's (NTTA) estimated \$444 million first-tier system revenue refunding bonds, series 2024A; and its 'A+' rating to the authority's estimated \$688 million second-tier system revenue refunding bonds, series 2024B.
- At the same time, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the authority's first-tier toll road revenue bonds and our 'A+' long-term rating and SPUR on the authority's second-tier revenue bonds outstanding.
- The outlook is stable.

Security

Net revenues of the NTTA toll system secure the Authority's toll road revenue bonds. The long-term rating on the second-tier bonds reflects our view of their subordinate lien on the net revenue.

Bond proceeds will be used to refund a portion of the Authority's outstanding debt for debt service savings.

As of June 30, 2024, NTTA had about \$8.9 billion in debt outstanding, consisting of \$6.3 billion of first-tier bonds, \$2.6 billion of second-tier bonds, and about \$37 million of subordinate-lien bonds. It also has an undrawn \$200 million credit facility available under its revolving notes program, if needed to fund capital needs on an interim basis. Under the program, the Authority has executed a noteholder agreement with Royal Bank of Canada with the commitment expiring Dec. 14, 2024, unless NTTA elects to extend it. We view the contingent liquidity exposure related to the agreement as comparatively low and manageable if ultimately drawn on.

Credit overview

Anchored by a large and growing metropolitan area, our assessment of NTTA's overall credit metrics remains unchanged with a very strong enterprise risk profile and a strong financial risk profile. The system continues to experience favorable traffic trends and remains committed to biennial toll rate increases, which has translated to solid revenue trends through economic cycles, helping maintain healthy financial margins. For the six-month period ended

June 30, 2024, the Authority reports a 2% increase in toll transactions and a roughly 12% increase in revenue, relative to the same period in 2023. The higher toll revenue reflected toll rate increases implemented July 1, 2023, and organic transaction growth.

Our financial risk profile assessment of NTTA considered historical and projected financial and operational results and an updated traffic and revenue study that reasonably assumes continuation of routine systemwide toll rate increases; system toll transactions increasing 2.1%, on average, per year; and system toll revenue increasing 4.9%, on average, annually from 2024 to 2030. Growth assumptions for system transactions are predominantly based on continued favorable service area demographic trends. As of June 30, 2024, NTTA's unaudited unrestricted cash reserves totaled approximately \$1.19 billion.

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

- Very strong market position due to the authority's important role as a regional urban infrastructure provider, with critical transportation links in the expanding Dallas-Fort Worth-Arlington (DFW) metropolitan statistical area (MSA), despite the existence of nontolled alternatives;
- Strong financial risk profile, reflecting coverage, debt capacity, and liquidity (S&P Global Ratings-calculated) we expect will be sustained at strong levels; respectively, above 1.25x coverage, 5x-10x debt to EBIDA, more than 800 days' cash on hand (DCOH), supported by regularly scheduled toll rate increases, generally favorable traffic trends, and no new-money borrowing needs; and
- Very strong management and governance, reflecting NTTA'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.

Offsetting credit factors in our view include NTTA's:

- Capital improvement program (CIP) of about \$2 billion for fiscal 2024-2028 that will be funded from cash on hand, cash flow from operations, and potentially short-term notes on an interim basis requiring some degree of revenue growth to support operations while maintaining comfortable financial margins.

Environmental, social, and governance

We evaluated NTTA's environmental, social, and governance factors as neutral in our credit rating analysis. Our rating and our view of its long-term credit stability are underscored by favorable demographic trends and economic growth within the DFW MSA that represent a social opportunity generating strong demand for the system that we believe results in favorable financial performance.

Outlook

The stable outlook reflects our expectation that the high and relatively price-inelastic demand for NTTA's roads will provide it with sufficient flexibility to raise tolls to ensure continued strong financial performance.

Downside scenario

A deterioration of the Authority's financial metrics inconsistent with its strong financial risk profile could lead to downward rating pressure.

Upside scenario

Maintaining overall financial metrics supported by transaction and revenue growth, coupled with a successful implementation of its CIP while maintaining current overall debt metrics could lead to upward rating potential.

Credit Opinion

Enterprise Risk Profile: Very Strong

Growing service area and demand show little sign of abating despite economic conditions cooling

Strong and resilient demand for the system as well as the large service area served by NTTA underpin our very strong enterprise risk profile assessment. Transactions in fiscal 2023 (Dec. 31 fiscal year-end) were up slightly over 6% relative to 2022 and roughly 10% over 2019 levels, underscoring the very strong market position. The Authority's network is overwhelmingly used by passenger vehicles (two-axle), which accounted for approximately 96% of toll transactions in 2023.

An updated traffic and revenue study completed by CDM Smith and released in August 2024 reflects a continued pattern of growth for both transaction and revenue. Overall, the forecast estimates annual transaction growth of 2.1% through 2030, then moderating to annual growth of 1.5% in the succeeding decade. Annual revenue growth is forecast at nearly 5% for the balance of the decade before moderating to 4.3% from 2030-2040. The forecast assumes the Authority's biennial rate increases, the latest of which occurred on July 1, 2023, as set in policy. Given the continued population growth in the region and demand for system's network, we view near-term estimates as reasonable and conservative.

From an economic perspective, the broader DFW MSA is anticipated to grow at a faster clip than the nation in 2025 and 2026 with metro economic output growth of 2.8% and 2.6%, respectively, according to S&P Global Market Intelligence. However, with the expectation of the monetary policy gradually easing into next year, a soft landing remains on target, though a mix of geopolitical risks, a potentially disruptive U.S. election in the fall, and disorderly reaction to financial markets could weigh on the overall macroeconomic outlook. For additional information see, "A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts," published Aug. 6, 2024, on RatingsDirect.

Strong management team supports overall credit stability

We continue to view the Authority's management and governance as very strong, reflecting NTTA's strategic positioning, risk and financial management, and organizational effectiveness. The management team has considerable expertise and experience due to its long tenure with the Authority. Management provides frequent and high-quality disclosure and maintains a detailed long-range financial forecast. Additionally, it has adopted a variety of financial policies, including an investment and debt management policy and toll rate-setting policy framework, all collectively supporting operational effectiveness and stability, in our view. This includes a focus on ensuring a strong capacity to

meeting the growing demands of the system and achieving high levels of customer service.

Financial Risk Profile: Strong

Financial performance continues historical pattern of consistent positive results

Our financial risk profile assessment remains strong and captures our view of strong debt service coverage (DSC; based on S&P Global Ratings' calculation), coupled with maintenance of very strong liquidity, and a large but carefully managed debt profile. We think the Authority's relatively resilient demand and ongoing toll rate increases will support historical trends and our expectation that key financial metrics will continue near current levels.

Average total DSC, as per our calculations, for fiscal years 2021-2023 is near 1.37x with pro forma coverage of 1.62x (2026), comfortably in the strong range. Our DSC calculations include audited financial results of NTTA reported on a GAAP basis on an all-in basis. NTTA's DSC, as per the indenture, for all outstanding obligations was 1.57x in fiscal 2023. Its rate covenant is to maintain DSC of no less than 1.35x on the first tier and 1.20x on the combined first and second tiers.

For NTTA to maintain DSC (S&P Global Ratings-calculated) at its projected levels through the forecast period, it will require continued reliance on growth in toll revenue due to toll increases and modest growth in traffic, which we believe is attainable given its demonstrated ability and willingness to increase tolls and favorable traffic trends.

Debt and liability profile steady with no debt plans in the works with its CIP supported by available cash

NTTA's debt profile remains strong and with no debt plans in the medium term, should continue to improve, in our view. The authority's debt to EBIDA in fiscal 2023 is 6.4x, and we expect it to remain below 10x due to additional revenue from planned toll rate increases and transaction growth, as well as the lack of additional debt added to the system. NTTA's five-year fiscal 2024-2028 CIP totals about \$2 billion. It plans to cash-finance all of its CIP with a combination of current restricted and unrestricted reserves as well as future excess cash flow. In our assessment of NTTA's strong liquidity and financial flexibility, we anticipate DCOH will remain between 800-400, which is comparatively adequate at between 20%-7.5% of debt.

North Texas Tollway Authority, Texas--Financial and operating data

	--Fiscal year ended Dec. 31--					Medians for 'AA' category rated toll roads
	2023	2022	2021	2020	2019	2022
Financial performance						
Total operating revenue (\$000s)	1,217,114	1,080,492	925,283	748,579	959,032	776,134
Plus: interest income (\$000s)	0	0	0	0	0	MNR
Plus: other committed recurring revenue sources (\$000s)	19,643	19,680	19,680	19,660	23,707	MNR
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	290,711	253,878	230,514	237,503	238,833	218,543
Numerator for S&P Global Ratings' coverage calculation (\$000s)	946,046	846,294	714,449	530,736	743,906	MNR

North Texas Tollway Authority, Texas--Financial and operating data (cont.)

	--Fiscal year ended Dec. 31--					Medians for 'AA' category rated toll roads
	2023	2022	2021	2020	2019	2022
Total debt service (\$000s)	645,233	590,144	522,135	603,113	552,074	138,675
Denominator for S&P Global Ratings' coverage calculation (\$000s)	664,876	609,824	541,815	622,773	575,781	MNR
S&P Global Ratings-calculated coverage (x)	1.4	1.4	1.3	0.9	1.3	2.24
Coverage reported by the NTTA (x)	1.6	1.5	1.4	1.3	1.4	
Debt and liabilities						
Debt (\$000s)	9,268,281	9,466,479	9,573,394	9,501,217	9,314,895	2,103,100
EBIDA (\$000s)	926,403	826,614	694,769	511,076	720,199	507,101
S&P Global Ratings-calculated net revenue (\$000s)	946,046	846,294	714,449	530,736	743,906	507,101
Debt to net revenue (x)	9.8	11.2	13.4	17.9	12.5	4.9
Debt to EBIDA (x)	10.0	11.5	13.8	18.6	12.9	4.9
Liquidity and financial flexibility						
Unrestricted cash and investments (\$000s)	1,204,617	1,010,803	902,484	910,172	752,358	557,050
Unrestricted days' cash on hand	1,512.4	1,453.2	1,429.0	1,398.8	1,149.8	MNR
Available liquidity to debt (%)	13.0	10.7	9.4	9.6	8.1	MNR
Operating metrics - toll road						
Total toll revenue (\$000s)	1,131,352	1,034,980	898,654	714,036	886,843	702,659
Toll transactions (000s)	935,223	881,327	813,939	653,498	850,880	163,594

O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See "Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions" criteria for more S&P Global Ratings definitions and calculations. MNR--Median not reported.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of August 16, 2024)

North Texas Tollway Authority Sys First Tier Rev Rfdg Bnds ser 2014A dtd 11/20/2014 due 01/01/2020-2025		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
North Texas Tollway Auth toll rds & br		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 16, 2024) (cont.)

North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & ASSURED GTY) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & BHAC) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (wrap of insured) (MBIA & BHAC) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (BHAC) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
North Texas Tollway Auth toll rds & br (MBIA) (National) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 16, 2024) (cont.)

North Texas Tollwy Auth toll rds & br (AMBAC)

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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