MOODY'S

Rating Action: **Moody's upgrades North Texas Tollway Authority, TX's ratings by one notch, assigns Aa3 to Series 2023A first tier revenue bonds, A1 to Series 2023B second tier revenue bonds; outlook changed to stable**

25 Aug 2023

New York, August 25, 2023 -- Moody's Investors Service has assigned Aa3 to the North Texas Tollway Authority, TX's (NTTA) expected $531.1 million System Revenue Refunding Bonds, First Tier Bonds Series 2023A and A1 to the expected $133.3 million Second Tier Bonds Series 2023B. Concurrently, Moody's upgraded the ratings on approximately $5.87 billion first tier revenue bonds to Aa3 from A1, approximately $2.73 billion second tier revenue bonds to A1 from A2, and $48.86 million subordinate lien revenue bonds to A3 from Baa1. Moody's affirmed the MIG 1 rating on NTTA's revolving note program. The outlook has been revised to stable from positive.

RATINGS RATIONALE

The upgrade of all long-term ratings reflects NTTA's growing revenue base, which supports moderating leverage and will sustain net revenue debt service coverage ratio through the remaining period of escalating 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 four years if NTTA's traffic consultant's forecast is met but will then begin to steadily increase when annual debt service requirements level off in 2026. NTTA maintains sufficient that mitigates risks of future traffic declines in future shocks and also fully funds NTTA's current capital plan.

NTTA's improved leverage of 8.9x adjusted debt to operating revenue supports the ratings upgrades but leverage 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 2.1x in 2022. 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.

The MIG 1 rating on the revolving notes, which would likely be repaid with the proceeds from bonds if drawn, is based on NTTA's Aa3 long-term rating.

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 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 2023A first tier bonds will be used to current refund Series 2014A and 2016 first tier bonds, legally defease Series 2017A first tier bonds, open market tender series 2020B bonds and pay cost of issuance. Proceeds of this Series 2023B second tier bonds will be used to current refund series 2014B second tier bonds and pay cost of issuance.

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 1,194 lane miles. Traffic is predominantly two axle passenger cars with only 2.7% multi-axle vehicles.

METHODOLOGY

The principal methodology used in the long-term ratings was Publicly Managed Toll Roads and Parking Facilities published in May 2023 and available at https://ratings.moodys.com/rmc-documents/403120. The principal methodology used in the short-term rating was US Municipal Short-term Debt Methodology published in May 2023 and available at https://ratings.moodys.com/rmc-documents/398329. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

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

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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