

CREDIT OPINION

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Update

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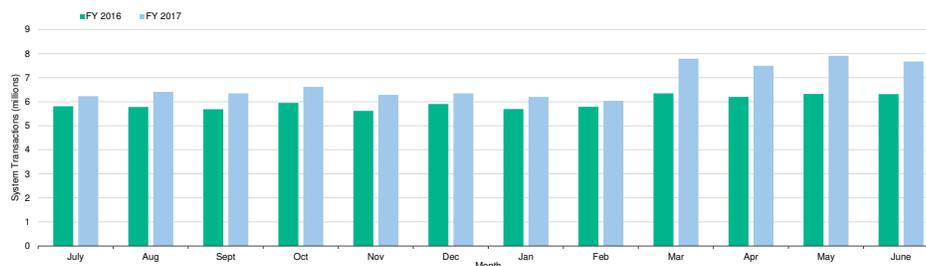
Central Texas Regional Mobility Authority, TX

Update: Moody's affirms CTRMA's Baa2 senior, Baa3 subordinate lien revenue refunding bonds; revises outlook to positive

Summary Rating Rationale

Moody's Investors Service has affirmed Central Texas Regional Mobility Authority's (TX) (CTRMA's) Baa2 rating for the senior lien bonds and Baa3 rating for the subordinate lien revenue refunding bonds. Moody's has also revised the outlook from stable to positive.

The change to positive outlook reflects our expectation that the CTRMA system will continue to outperform current revenue forecasts and that new projects coming online will contribute to increased system revenues as have previously incorporated projects such as SH 71. The positive outlook also recognizes the strong and growing economy of the service area and the more established operating history of the authority's assets that provides for greater certainty that forecasts will be met. The change in outlook also reflect our expectation that further system revenue growth, both through increased usage of existing facilities and the addition of new facilities, will allow CTRMA to undertake system expansion projects over the next five years.

Exhibit 1
System transactions outperformed previous year and further increased with the addition of SH 71 in March


Source: Central Texas Regional Mobility Authority

The Baa2 rating for the senior lien bonds is based on CTRMA's demonstrated ability to deliver and manage new toll road projects in a diverse, highly rated and growing service area (Austin, Aaa stable; Travis County, Aaa stable; Williamson County, Aa1 stable); strong traffic and revenue growth at or above recent forecasts; satisfactory forecasted debt service coverage ratios (DSCRs); reasonable traffic and revenue growth assumptions and the ability to withstand substantial stresses. An adopted toll plan of annual CPI-U indexed-based toll

rate increases through 2035 is a credit strength. These factors help mitigate construction and ramp-up risks associated with the more than doubling of debt for the new 183 South Bergstrom Expressway Project (183S). We note that while the debt service to finance this project escalates steeply from 2020 to 2030, we expect that traffic and revenue from the new toll road and the existing 183A and 290E components will grow ahead of debt service requirements.

Strong legal covenants, including a 1.25x rate covenant on senior debt service, provide additional bondholder protection. Strong unrestricted liquidity and Texas Department of Transportation (TxDOT) grant funds dedicated to the 183S project provide additional liquidity and credit strength. The Baa3 rating for subordinate bonds reflects the lower priority of claim and weaker, but still satisfactory, legal covenants including a 1.20x rate covenant and debt service reserve funds (DSRFs) equivalent to maximum annual debt service for the subordinate lien.

Credit Strengths

- » The Austin economy continues to benefit from ongoing diversification and a growing tech sector. Economic activity has driven employment growth, housing construction and increasing tax revenues. Austin is one of the fastest growing metropolitan areas in the US
- » Both 183A and 290E segments were completed within budget
- » Both 183A and 290E provide significant travel time savings due to heavily congested non-toll frontage roads with traffic signals. The 183S project also will provide congestion relief and travel time savings in one of the most heavily congested corridors in Texas, as well as a connection to the Austin airport
- » Satisfactory legal covenants include cash funded DSRFs for both senior and subordinate lien bonds, though the TIFIA DSRF funds may be released if certain coverage tests are met
- » CTRMA has independent rate-setting authority and rates are currently programmed to increase annually based on CPI-U. The board has overridden this cap in FY 2016 when actual CPI-U was 0%, and increased rates by 2%
- » Strong current cash position with board target of maintaining at least one year of operational expenses and debt service in unrestricted balances
- » Annual independent engineers inspection of assets provides basis for annual capital budget

Credit Challenges

- » Debt leverage is very high and financing for the 183S almost doubled outstanding debt, with sustained growth in traffic and toll revenues expected to support the debt
- » Annual debt service escalates steeply from 2020 to 2029 and is back-loaded
- » Construction and cost risks could delay revenue operation, though these risks are substantially mitigated by full environmental clearance; a fixed price design-build construction contract; acquisition of substantially all project right-of-way; project contingencies and capitalized interest reserves
- » Limited, though expanding history of tolling in the Central Texas area. Traffic capture and ramp-up is somewhat dependent on ramp-up on other toll roads in the area
- » CTRMA has been identified as lead agency to develop new toll projects in the service area and these projects could be designated as part of the CTRMA system (System designation can be done by official act of board of directors), though none are currently planned to be added to the system

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Rating Outlook

The positive outlook is based on our expectation that traffic and revenue will continue to outperform the current forecast for the 183S project and other system components and that project costs will be as budgeted, with no additional debt in the intermediate term.

Factors that Could Lead to an Upgrade

- » Sustained debt service coverage ratio above 1.5x on a net revenue basis
- » Completion of the 183S project ahead of schedule and below budget
- » Clarity around funding sources for system expansion projects along with procurement strategies that limit construction cost overrun risk

Factors that Could Lead to a Downgrade

- » Delays or cost overruns in the construction of the 183S project that would require additional debt
- » A downturn in the service area economy that would depress traffic and revenue growth significantly below the forecast and reduce DSCR below 1.5x for senior bonds and below 1.2x for subordinate bonds
- » The addition of debt-financed projects that add leverage before the completion of 183S ramp-up, and are not fully supported by new revenues, particularly given CTRMA's very high ratio of debt to operating revenue

Key Indicators

Exhibit 2

CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY, TX

	2012	2013	2014	2015	2016
Total Transactions Annual Growth (%)	9.6	47.6	23.8	36.4	3.6
Debt Outstanding (\$'000)	759,179	786,071	782,852	794,863	1,140,398
Debt to Operating Revenues (x)	31.9	24.1	18.3	14.8	17.7
Days Cash on Hand ('000)	999	1,260	2,714	1,771	1,817
Senior Lien Debt Service Coverage By Net Revenues (x)	1.97	2.02	2.28	2.11	1.89
Total Debt Service Coverage By Net Revenues (x)	1.22	1.32	1.38	1.41	1.32

Source: Moody's Investors Service

Recent Developments

Through fiscal year end 2017, total transactions and revenues continue to exceed projections. Systemwide toll revenues are nearly 10% higher than forecast for calendar year 2016. Monthly transactions for FY 2017 were 528,303 higher on average through February until SH 71 came online in March and spiked the average monthly increase over 2016 by 1.4 million. Through May 2017 system revenue is 29.4% higher than the same eleven-month period in 2016.

Construction of the 183S project continues on schedule and is currently 37% complete by project billings. There have been no major change orders and all of the project contingency remains.

Detailed Rating Considerations

Revenue Generating Base

Austin-Round Rock is expanding at a smooth, above-average rate, its economy largely unaffected by the downturn in energy prices and exploration hitting other parts of Texas. Private services are leading the way, though state government is lagging, due to decreased sales tax revenues from lower oil prices. The unemployment rate remains far below the US average at 3.4% in February 2017. Multi-family residential construction remains strong, though permits for single-family homes have fallen.

Technology-related employment increased by 33% over the last five years, three times the rate of the US. Apple continues hiring at its new Americas Operations Center, in addition to other companies relocating to Austin, including HID Global and Websense. The strength in the local economy and job market continues to attract a well-educated workforce to the area, 40% of whom have a bachelor's degree.

Moody's Analytics expects Austin-Round Rock will expand at an above average pace over the coming year. The drivers will be IT, healthcare, and other private services, including hospitality. In-migration of well paid professionals will drive steady gains in the housing market. Longer term, a very well-educated labor force, high concentration of technology businesses, and fast rate of population growth will yield above-average performance.

Despite the CTRMAs adopted tolling policy that pegs increase to annual CPI-U, the board voted to increase rates by 2% for FY 2016 despite the fact that Austin CPI-U grew 0%. Thus far there has been no local push back on toll increases, with all electronic toll collection (AETC) systemwide AETC facilitating adjustments. We think the policy to increase rates supports the change in the outlook as it further demonstrates CTRMA's willingness to support strong debt service coverage as well as adding additional cash funding of CTRMA projects, which will ultimately reduce leverage.

CTRMA retains primacy over new toll projects in the Austin area and has sole authority to determine which projects it develops. The board must authorize any project to be added to the system. Three new projects are anticipated, which we expect to be substantially funded by debt. Moody's notes that previously added projects have been revenue additive to the system, which provides a positive frame of reference. Going forward, the addition of new debt will increase debt service to approximately \$113 million in 2030, though we expect that number to become higher with additional debt issuance. That being said, we expect debt service coverage to remain above 1.7x before a significant amount of debt service is added with future issuance.

Operational and Financial Performance

Fiscal year 2016 senior bond ordinance DSCR was 2.10x while total DSCR was 1.47x. On a Moody's net revenue basis these DSCRs were 1.90x and 1.32x. The key difference between coverage levels is approximately \$3.0 million of operating expense contained on the income statement above the levels included in CTRMA's bond ordinance calculation. We expect net revenue coverage to be 1.91 x for FY2017 based on revenues through May 2017. Given the current over performance of the 183A and 290E facilities and the addition of the SH71 project we expect DSCR by net revenues to remain above 1.75x through 2022.

LIQUIDITY

Liquidity remains very strong relative to O&M at 1,825 days in FY 2016, plus cash funded DSRFs and construction funds. We expect liquidity to remain strong throughout CTRMA's capital expansion plan given the board policy of at least one year of O&M expenses and debt service.

Debt and Other Liabilities

DEBT STRUCTURE

CTRMA's debt profile is steeply escalating, particularly from 2020 to 2030. Annual debt service is expected to reach approximately \$150 million in FY 2030, and additional issuances for any new system projects would push that amount even higher. While this increase is steep and continues to constrain the rating, we think that continued strong performance will result in adequate DSCRs in the face of this increase.

DEBT-RELATED DERIVATIVES

None, but CTRMA's Series 2015B are soft-put bonds with an initial tender date of January 7, 2021 and a maximum stepped interest rate of 9%.

PENSIONS AND OPEB

CTRMA's pension obligations, on Moody's adjusted pension net liability (ANPL) basis, was a very manageable \$2.9 million in FY 2016.

Management and Governance

The authority was created and operates under the Texas Transportation Code Chapter 370 and is authorized under state law to implement a wide range of transportation systems including roadways, airports, seaports and transit services.

CTRMA was the first regional mobility authority formed in Texas in 2002 to improve transportation networks in Travis and Williamson Counties. CTRMA is identified by CAMPO as the lead agency for transportation planning and financing in Austin Metro Area and has the right of first refusal on all toll transportation projects.

CTRMA is overseen by a seven-member board of directors. The chairman is appointed by the governor. The county commissioners of Travis and Williamson counties (member counties) each appoint three board members.

Legal Security

The senior lien bonds are secured by a first lien on net revenues of toll road system, consisting primarily of toll road revenues from the 183A, 290E and SH71E, as well as future toll revenues from the 183S. The subordinate lien bonds are payable on a third lien basis following the payment of senior lien and junior lien debt service; however, there is no junior lien debt currently outstanding and none is expected. Both senior and subordinate lien bonds have cash-funded DSRFs.

CTRMA and TxDOT have executed two Financial Assistance Agreements for the 290E project that provides for TxDOT to make \$128.9 million available in quarterly payments over a period of five fiscal years. A portion of the funds are to be used to pay costs of construction the 290E. The TxDOT Grant Funds are not subject to repayment but CTRMA is required to use surplus revenues, if any, from the project to pay costs of other transportation projects in an amount up to the amount of the funds granted.

Use of Proceeds

Not applicable.

Obligor Profile

The CTRMA is an independent government agency created in 2002 to improve the transportation system in Williamson and Travis counties.

CTRMA built and operates the US 183A Project Phases I and II. 183A is a 11.6 mile limited access toll road roughly parallel to existing US 183 northwest of the City of Austin, Williamson, and Travis counties, connecting at its southern end to the western end of SH 45 that opened in 2007. CTRMA projects are part of an integrated system of new toll roads in the greater Austin area. The authority also operates Phase I and Phase II of the Manor Expressway in Austin and Travis County which was built with a combination of toll revenue bonds, Federal grant funds, and TxDOT funds and began tolling in January 2013 was fully opened in 2014. The 290E is a 6.2 mile project with tolled mainlines and non-tolled frontage roads. Beginning March 2017, CTRMA added the SH71 project as well.

Other Considerations - Mapping to the Grid

We note that the published ratings are lower than the Moody's methodology scorecard outcome because of the near doubling of debt with the 183S project and risks associated with traffic and revenue ramp-up for CTRMA's newly opened and planned toll roads.

The grid is a reference tool that can be used to approximate credit profiles in the US toll roads industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see our Government Owned Toll Roads rating methodology for more information about the limitations inherent to grids.

Exhibit 3

Government Owned Toll Road Methodology Scorecard Factors

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Ba	
	b) Operating History	Ba	
	c) Competition	A	
	d) Service Area Characteristics	Aa	
2. Performance Trends	a) Annual Traffic Transactions	A	64.3 million
	b) Traffic Profile	Aa	
	c) Five Year Traffic CAGR	Aaa	20.9%
	d) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	Baa	1.32x
	b) Debt to Operating Revenue	Caa	17.73
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	Baa	
	b) Limitations to Growth/Operational Restrictions	Baa	
Notching Considerations		Notch	
	1 - Debt Service Reserve Fund level		
	2 - Open/Closed Flow of Funds		
	3 - Days Cash on Hand	1.0	
	4 - Other Financial, Operating and Debt Factors	-1.0	
Scorecard Indicated Rating:		Baa1	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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