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Ratings

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Central Texas Regional Mobility Authority; Toll Roads Bridges

Primary Credit Analyst:
Todd R Spence, Dallas (1) 214-871-1424; todd.spence@spglobal.com

Secondary Contact:
Kenneth P Biddison, Centennial (303) 721-4321; kenneth.biddison@spglobal.com

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Central Texas Regl Mobility Auth		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

S&P Global Ratings has affirmed its 'BBB+' rating on the Central Texas Regional Mobility Authority's (CTRMA) senior-lien revenue bonds, and its 'BBB+' long-term and underlying ratings on the CTRMA's 2015C subordinate Transportation Infrastructure Finance and Innovation Act bonds. At the same time, S&P Global Ratings affirmed its 'BBB' long-term rating on the CTRMA's 2016 subordinate-lien revenue refunding bonds, and its 'BBB' long-term rating on the authority's series 2015D and 2015E Texas Department of Transportation bonds. The outlook is stable.

The ratings reflect our view of the CTRMA's strong service area that provides a good base of demand for the authority's roads. The system has increased in diversity and includes roadway projects like 183A, 290 East, and SH71 East, which are all operational, and 183 South that is currently under construction. Transactions and revenues have grown consistently, exceeding CTRMA's forecast. 183 South will provide additional diversity to the system upon completion, and the finance plan provides good forecast total coverage.

The ratings further reflect a pledge of the CTRMA's net toll revenue, which secures both the senior-lien and subordinate-lien bonds.

More specifically, the ratings reflect our view of the authority's:

- General uncertainty associated with traffic and revenue forecasts for projects that rely on projections of wealth levels, residential and commercial development, development of competing and feeder facilities, and increasing toll rates;
- Dependence on system revenue growth to cover escalating annual debt service requirements, particularly in the earlier years;
- Additional debt to fund expansion projects; and
- Lower financial margins for the subordinate-lien debt.

We believe the following factors offset these credit weaknesses:

- Good operating history of the system's open sections;
- Strong growing service area that has contributed to continued growth in traffic and revenues and provides a good

base of demand; and
- Good projected total debt service coverage (DSC) of 1.64x or higher from 2017 forward, which will provide some cushion should traffic and revenues fall below projections.

A senior-lien pledge of revenues secures the senior-lien bonds, after payment of operating costs. The indenture also has a junior lien between the senior and subordinate liens, but this has no debt outstanding. The authority has no plans to issue debt on the junior lien.

The CTRMA owns and operates a toll-road system in the Austin metropolitan statistical area (MSA) that includes 183A, 290 East, and SH71 East, which are all operational, and 183 South that is under construction. The authority has a track record of completing roads to enhance and expand the system. Having opened to traffic in March 2007, the fully operational 183A toll road was completed on April 6, 2012, on time and within budget. The authority completed construction of U.S. 290 East, a 6.2-mile toll road with four direct connectors at the western terminus of the project, on schedule and within budget. Toll collections on U.S. 290 commenced in January 2013 for the interim construction, and on May 17, 2014, for the full project. Average weekday transactions for the system are above the forecast. We expect the 183 South project to commence building in August 2019, with the full project to follow in August 2020. The project is on schedule and within budget.

The authority's current and planned debt is structured with escalating annual debt service. Therefore, strong growth in toll revenues will be necessary for the authority to provide adequate DSC, particularly during the next 10 years. In our view, the socioeconomic and development trends in the corridor and MSA provide the underlying demand for good traffic growth.

Total toll revenue increased 20% to $64 million in fiscal 2016, from $53 million in fiscal 2015. The CTRMA's net revenues have provided adequate coverage historically. Net revenues, equal to operating revenues less operations and maintenance (O&M) expenses on the system, provided overall coverage of 1.55x in 2016. The authority's financial projections, which include the Bergstrom Expressway, provide projected DSC on the senior-lien debt of about 2.14x or better during the life of the bonds. DSC on the senior and subordinate lien is at least 1.64x. We consider the CTRMA's financial forecast reasonable, and believe it provides good coverage on the senior lien and adequate total coverage. Any operational or financial performance below forecast would be a credit risk. The escalating debt service schedule requires consistent increases in traffic and revenues to meet the forecast. Solid projected DSC is an important credit factor, in our view, given the uncertainties inherent in traffic and revenue projections. We believe the construction and start-up risks associated with the addition of the Bergstrom Expressway to the system are manageable, given the authority's track record of completing similar projects.

Outlook

The stable outlook reflects our view of the toll-road system's strong underlying demand provided by the Austin region and our expectation that traffic and revenue from existing roads will continue to meet existing forecasts within the two-year outlook period.

Upside scenario

Given the expansion project's construction, we do not expect to raise the rating within the two-year outlook period.

Downside scenario

We could lower the rating if the CTRMA experiences below-forecast financial or operational performance, or if construction delays or cost escalation on the expansion project negatively affect the financial forecast.

Issuer

Created in 2002, the CTRMA is authorized to construct, maintain, repair, and operate toll-road projects at locations approved by the Texas Legislature. The authority is governed by a seven-member board of directors, with three members appointed by Travis County, three appointed by Williamson County, and the presiding officer appointed by the governor. Board members serve two-year terms. The board-appointed executive director oversees the CTRMA's operations.

Bond Provisions

In our view, the provisions provide adequate protection for bondholders. The bonds benefit from a net revenue pledge and a senior-lien debt service reserve fund. The series 2011 and 2013 subordinate lien bonds have separate reserve funds. The senior-lien debt service reserve requirement is an amount equal to the lesser of maximum annual debt service (MADS), 1.25x average annual debt service, or 10% of outstanding senior lien bonds.

The master indenture provides for the following liens secured by net revenues (in order of seniority): senior-lien obligations, junior-lien obligations, subordinate-lien obligations, and other obligations. Under the flow of funds, revenues are applied in the following order:

- To pay any arbitrage rebate;
- To deposit to the operating fund an amount such that the balance in the fund equals one-sixth of the O&M expense budget;
- To pay senior-lien debt service;
- To make any required deposits to the senior-lien debt service reserve fund;
- To pay junior-lien debt service;
- To make any required deposits to the junior-lien debt service reserve fund;
- To pay subordinate-lien debt service;
- To make any required deposits to the subordinate-lien debt service reserve fund;
- To deposit to the renewal and replacement fund one-twelfth of the amount required under the annual capital budget;
- To pay debt service on other obligations; and
- To the general fund.

The rate covenant requires that the authority set tolls such that annual revenues, after paying operating expenses (but not maintenance expenses), will provide the following levels of DSC:

- 1.25x debt service on all senior-lien obligations;

- 1.2x debt service on all senior- and junior-lien obligations;
- 1.1x debt service on all senior-, junior-, and subordinate-lien obligations; and
- 1x debt service obligations on all obligations, plus amounts required to be deposited into the funds.

The ninth and 11th supplemental indentures require that projected DSC stay at 1.2x with respect to senior-, junior-, and subordinate-lien obligations.

The indenture authorizes the CTRMA to issue additional bonds under its various liens. To issue additional senior-lien bonds, the authority must provide to the trustee a traffic consultant's report stating that the authority met its rate covenant in the preceding year and that projected annual revenues, less projected operating expenses (but not maintenance expenses) provide the following DSC ratios during the term of the additional bonds:

- 1.4x on all senior-lien obligations;
- 1.2x on all senior- and junior-lien obligations;
- 1.1x on all senior-, junior-, and subordinate-lien obligations; and
- 1x with respect to all obligations.

The junior- and subordinate-lien additional bonds test is similar. Completion bonds are allowed at all lien levels in a principal amount not in excess of 10% of the original obligations issued to finance such facilities. Before issuing completion bonds, however, the trustee must receive a certificate from the general engineering consultant (GEC) stating the estimated amount needed to complete the facilities and a certificate from the authority stating, among other items, that the proceeds will at least equal the GEC's estimates.

Ratings Detail (As Of October 4, 2017)		
Central Texas Regl Mobility Auth (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Central Texas Regl Mobility Auth (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.