MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Central Texas Regional Mobility Authority, TX

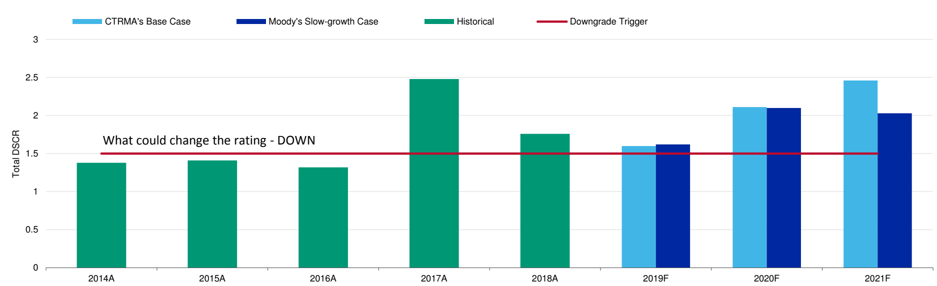
Update to credit analysis following upgrade to Baa1, outlook changed to stable

Summary

Central Texas Regional Mobility Authority's (CTRMA, Baa1 stable) strengthening credit profile results from a growing asset base and traffic and revenue levels that have grown faster than CTRMA's own expectations. The risk of achieving toll revenue increases sufficient to meet the steeply escalating debt service requirements is further reduced by the nearing completion of the 183 South Project (183S). The project is 67% complete by billings and CTRMA expects the facility to partially open in 2019. CTRMA additionally completed the MoPac improvement project that while not legally pledged to bondholders, could represent an additional revenue resource. CTRMA's adopted toll plan of annual CPI-U indexed-based toll rate increases provides an important mitigant to debt service requirements that will more than triple by 2030 from 2018 levels. Leverage will remain high at 13.4x in fiscal 2019 and could remain elevated if CTRMA elects to fund additional projects.

Exhibit 1

Net revenue DSCR expected to decline slightly in fiscal 2019 from recent levels but remain above 1.5x in both base and slow growth cases



Source: CTRMA and Moody's Investors Service

Credit Strengths

» The Austin economy continues to benefit from ongoing industrial diversification and the tech sector remains strong. 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 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 debt service reserve funds (DSRFs) for both senior and subordinate lien bonds, though the TIFIA loan 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 fiscal 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

Credit Challenges

- Debt leverage is very high and debt service escalates steeply from 2018 to 2030
- Construction and cost risks could delay revenue operation for the 183S project, 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
- Authority has been identified as lead agency to develop new 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

Rating Outlook

The stable outlook reflects our expectation that CTRMA will maintain total debt service coverage ratios (after covering both system and non-system operating expenses) above 1.6x. The stable outlook is also based on our expectation the 183S and 290E Phase III projects are completed near the current scheduled completion dates and near budget.

Factors that Could Lead to an Upgrade

- Ability to meet maximum annual debt service requirements with previous year's net revenue
- Leverage, as measured by debt to operating revenue, below 10.0x
- 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 total DSCR by net revenue below 1.5x for senior 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					
	2014	2015	2016	2017	2018
Total Transactions Annual Growth (%)	23.8	36.4	15.1	13.9	13.5
Debt Outstanding ($'000)	782,852	794,863	1,140,398	1,258,555	1,346,135
Debt to Operating Revenues (x)	18.3	14.8	17.7	16.6	14.7
Days Cash on Hand ($'000)	2,714	1,771	1,817	1,795	1,675
Senior Lien Debt Service Coverage by Net Revenues (x)	2.28	2.11	1.89	4.53	2.19
Total Debt Service Coverage By Net Revenues (x)	1.38	1.41	1.32	2.48	1.76

Source: Moody's Investors Service

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 183A 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 in 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. CTRMA also operates Phase I and Phase II of the 290E 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 71E project, which was partially funded by TxDOT, as well.

Detailed Credit Considerations

Revenue Generating Base - We expect Austin to grow at above average rates, supporting further traffic growth on CTRMA facilities

CTRMA's revenue generating base will strengthen as new toll roads are delivered and strong economic growth in the region increases demand along existing facility corridors. Moody's Analytics expects Austin-Round Rock will expand at an above average pace over the coming year. The leading drivers will be IT and housing. Longer term, a very well-educated labor force, high concentration of technology businesses, relatively low business costs and fast rate of population growth will yield above-average performance. Austin-Round Rock has continued to experience accelerated growth over the past year, with job growth two times the national average and an unemployment rate far below the US average at 3.0% in April 2018. Growth in core professional services are leading the way, as the government sector continues deep pay cuts in the capital. Professional service employment is up 7.8% over the past year, three times higher than that of the US. New developments in the tech sector include Oracle Corporation (A2 stable)'s sales innovation hub and Samsung Electronics Co., Ltd (Aa3 stable) $1 billion investment in a new local facility.

Continued new home development in the region will benefit CTRMA's facilities as the areas around them fills in. Home sales reached a record high at the end of 2017 and permits for single-family homes were almost equal to the peak experienced in 2006 and 2017. Additionally, the new growth in permits has enabled a 5.3% growth in construction employment as compared with the previous year, faster than the national pace. In 2017, home prices increased only 5.6% on average, a significant drop from the double digit growth experienced from 2013-2016, mainly as a result of increase in supply of new single-family housing. Increases in housing prices combined with the previous inflation caused Austin-Round Rock to be one of the most expensive places in Texas to live.

We expect the continued ramp-up of the 71E project and the addition of the 183S project in 2019 to positively impact the credit profile. 71E had its first full year of operations in fiscal 2018, posting approximately $5.0 million of revenue. CTRMA expects the first phase of 183S project to open in mid calendar 2019 with the second phase in mid calendar 2020. The 183S project is 67% complete by billings and 47% of the project contingency remains. CTRMA has also opened the MoPac Improvement project, though the project is not considered a "system project" and the revenues from the facility are therefore not pledged to bondholders. CTRMA's board can elect to declare MoPac as system project at any time. We expect that CTRMA would elect to make MoPac a system project in order to protect it's credit profile ahead of new project debt issuance.

CTRMA's demonstrated implementation of the toll increase policy supports the credit and mitigates some of the risks posed by the steeply escalating debt service requirement profile. Despite the CTRMA's adopted tolling policy that pegs increase to annual CPI-U, the board voted to increase rates by 2% for fiscal 2016 despite the fact that Austin CPI-U grew 0%. There has been no local push back on toll increases, with all electronic toll collection (AETC) systemwide AETC facilitating adjustments. In fiscal 2017, toll rates increased by 2.2%, in line with Austin's CPI-U growth in the same period.

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. Previously added projects have been revenue additive to the system, which provides a positive frame of reference. CTRMA recently opened the MoPac improvement project, though the project is not considered a “system project” and the revenues from the facility are therefore not pledged to bondholders. CTRMA's board can elect to declare MoPac as system project at any time. We expect that CTRMA would elect to make MoPac a system project in order to protect it's credit profile ahead of new project debt issuance.

Operational and Financial Performance - Maintaining DSCR at current levels will require strong revenue growth

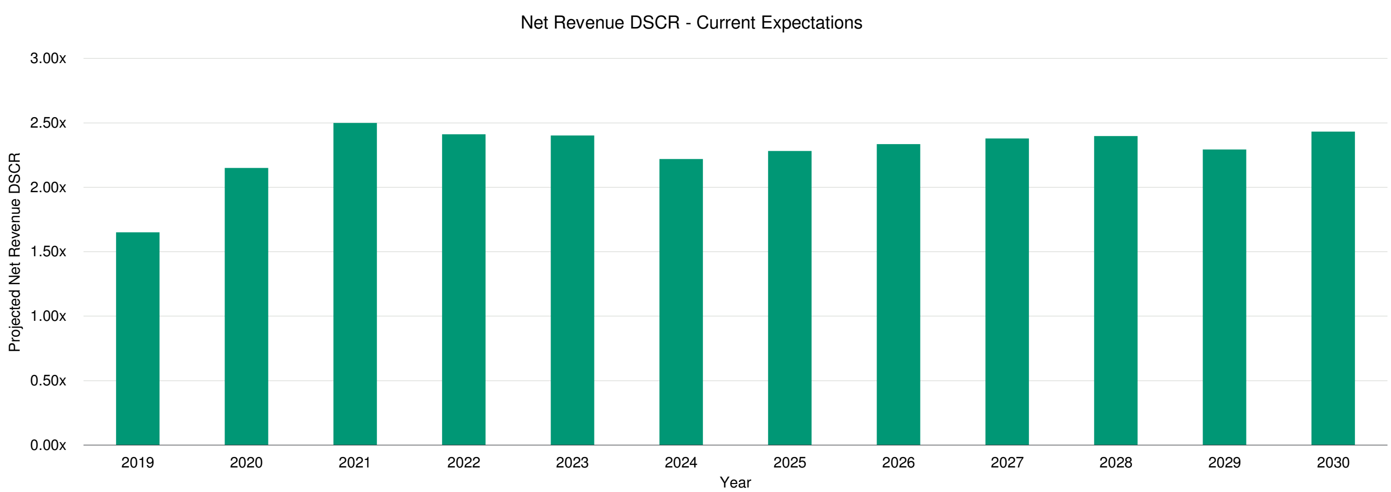
CTRMA requires continued strong traffic and revenue growth to maintain debt service coverage levels near current levels. Annual debt service requirements grow rapidly, approximately tripling by fiscal 2030 from current fiscal 2018 levels. On a bond ordinance basis, which recognizes operating expenses of the system, debt service coverage ratio (DSCR) on senior lien bonds fell to 2.2x in fiscal 2018 from 5.2x in fiscal 2017, while DSCR on total debt decreased to 1.8x from 2.9x. The decrease was attributable to a significant an increase in debt service. Operating revenue (toll and fee revenue) increased 21.0%, driven by the opening of 71E and strong growth on all facilities. CTRMA expects total DSCR to exceed 2.0x in 2020 when the 183S project opens, and continue to grow from there.

We think that increases in DSCR may be less than CTRMA projects, but could match CTRMA's forecast if the Austin area grows at the high end of our forecast and the 183S project opens on time and has a quick ramp-up. On our net revenue basis, which includes all expenses identified on CTRMA's audit financial statements, senior lien DSCR decreased to 2.2x in fiscal 2018 from 4.5x in fiscal 2017 and total DSCR decreased to 1.8x from 2.5x. We expect total DSCR to range between 1.6x and 2.1x through fiscal 2025 in a slower growth scenario. Total DSCR would range between 2.1x and 2.5x if CTRMA's projections are met.

Given the current over performance of the 183A and 290E facilities and the addition of the 71E project we expect DSCR by net revenues to remain above 1.65x through 2022.

Exhibit 3

Current expectations for net revenue DSCR from 2019 to 2030



Source: CTRMA and Moody's Investors Service

LIQUIDITY

Liquidity remains very strong at 1,675 days in fiscal 2018, plus cash funded DSRFs and construction funds. We expect liquidity to remain adequate 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 - High lever

DEBT STRUCTURE

CTRMA's high current leverage is one of its biggest credit weaknesses and we expect debt to continue to grow. CTRMA's Series 2010 capital appreciation bonds accrete through fiscal 2025 and the Series 2011 capital appreciation bonds accrete through 2022. The majority of CTRMA's debt is on the senior lien ($918.0 million) while the remainder is on the subordinate lien ($518 million). All debt is fixed rate.

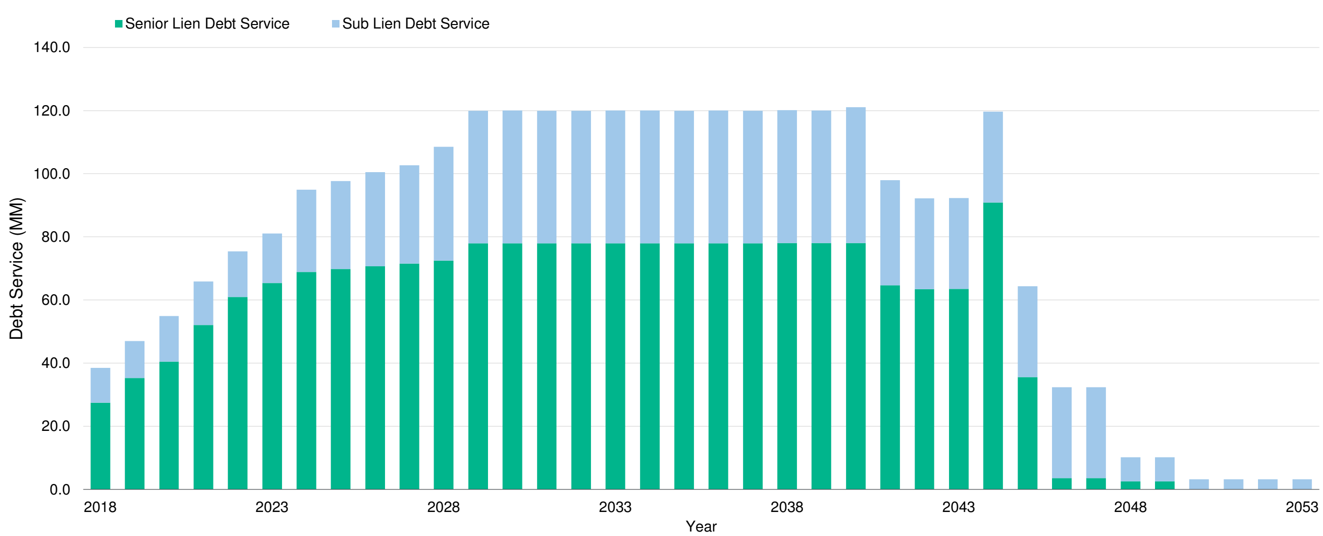
The Subordinate Lien 2015 TIFIA Loan, which subordinate in the flow of funds, has a springing lien provision in the event of a bankruptcy related event. While the definition of a bankruptcy related events does not include two missed payments on the TIFIA loan as newer loans contain, CTRMA does have the legal ability to declare bankruptcy, which would cause the TIFIA loan to be on parity with senior lien bonds.

The Series 2018 subordinate lien bonds introduce a small amount of credit risk. The Series 2018 subordinate bonds are being issued as bond anticipation notes maturing in 2021. CTRMA expects to refund the notes with proceeds of a Federal TIFIA loan for the 290E Phase III project. The TIFIA loan agreement is not in place, but it our experience that TIFIA loans tie loan disbursements to substantial completion of the project. If construction were significantly delayed, the TIFIA may not fund it's commitment and CTRMA would need to either roll the notes or redeem them with liquidity. Given the small scope of the construction project and ample liquidity balances, we see this risk as small.

The steeply increasing annual debt service requirements pose the greatest credit risk because high growth rates are necessary to maintain current DSCR.

Exhibit 4

CTRMA's steeply increasing debt service requirements



Source: CTRMA and Moody's Investors Service

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

Pension exposure does not pose as significant credit risk. CTRMA's pension obligations, on our adjusted pension net liability (ANPL) basis, were a very manageable $3.3 million in fiscal 2017.

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.

Other Considerations - Mapping to the Grid

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 the Government Owned Toll Roads rating methodology published November 11, 2016 for more information about the limitations inherent to grids.

The assigned rating of Baa1 is below the A3 grid indicated rating because the rating incorporates the remaining construction risk on the 183S project and the uncertainty around funding sources of CTRMA's potential new projects.

Exhibit 5

Government owned toll road methodology scorecard factors

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Ba	
	b) Operating History	Baa	
	c) Competition	A	
	d) Service Area Characterisitcs	Aa	
2. Preformance Trends	a) Annual Traffic Transactions	A	92.3m
	b) Traffic Profile	Aa	
	c) Five Year Traffic CAGR	Aaa	
	d) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	A	1.76x
	b) Debt to Operating Revenue	Caa	14.7
4. Capacity, Capital Plan and Leverage	a) Capital Needs	Baa	
	b) Limitations to Growth/Operational Restrictions	Baa	
Notching Considerations			
	1 - Debt Service Reserve Fund level	0	
	2 - Open/Closed Flow of Funds	0	
	3 - Days Cash on Hand	1	
	4 - Other Financial, Debt and Operational Factors	-1	
Scorecard Indicated Rating:		A3	

Source: Moody's Investors Service

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