S&P Global Ratings

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Summary:

Central Texas Regional Mobility Authority; Toll Roads Bridges

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Credit Profile		
US$342.555 mil sr ln rev rfdg bnds, taxable ser 2021E dtd 10/01/2021 due 01/01/2045		
Long Term Rating	A-/Positive	New
US$311.83 mil sr ln rev rfdg bnds ser 2021D dtd 10/01/2021 due 01/01/2046		
Long Term Rating	A-/Positive	New

Rating Action

S&P Global Ratings revised the outlook to positive from stable, and affirmed its 'A-' long-term rating and underlying rating (SPUR) on the Central Texas Regional Mobility Authority's (CTRMA's) senior-lien revenue bonds and 2021A subordinate Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds; and its 'BBB+' long-term rating and SPUR on the CTRMA's subordinate-lien debt outstanding. At the same time, S&P Global Ratings assigned its 'A-' long-term rating to the CTRMA's proposed approximately $311.8 million senior-lien revenue refunding bonds, series 2021D; and the $342.6 million senior lien revenue refunding bond, taxable series 2021E.

The outlook revision reflects our expectation that the CTRMA will meet or exceed financial metrics through an expansionary period with projects still under construction or ramp-up, due to improving traffic volume and planned toll rate increases. The positive outlook further reflects the effects of the proposed refunding that will reduce debt service, and our view that CTRMA's management team will continue to prudently manage its financial operations.

The toll system's net revenues secure the authority's toll road revenue bonds and TIFIA loans. The 'BBB+' rating on the 2013 subordinate-lien bonds, the 2016 subordinate-lien revenue refunding bonds, the 2020D taxable subordinate-lien revenue refunding bonds, and the 2020G subordinate-lien revenue refunding bonds is based on our view of their subordinate lien on the net revenues. The 'BBB+' rating on the series 2018, 2020F, and 2021C bond anticipation notes (BANs) reflects their subordinate claim on net revenues and what we consider a low market risk profile, strong market access, and strong information disclosure. Because of legal provisions that elevate their claim on revenues upon default, we equate the rating on all of CTRMA's TIFIA loans to the 'A-' rating on the senior bonds, despite the loans' subordinate position in the cash waterfall.

Bond proceeds will be used to refinance the senior-lien series 2016 and 2015A bonds outstanding, make a deposit to the senior-lien debt service reserve fund, and pay costs associated with issuance. The CTRMA has approximately $2.4 billion of pro forma debt outstanding, which includes senior-lien, subordinate-lien, and TIFIA debt.

Credit overview

The rating action reflects our expectation that the authority will continue to generate toll revenues that meet or exceed forecast levels supported by favorable traffic and revenues trends despite temporarily weakened activity at the onset of the COVID-19 pandemic. The rating further reflects our view that the authority will proceed with planned expansion projects and that construction will generally proceed on schedule and within budget. Furthermore, we believe management will adjust toll rates and expenses to meet financial forecasts. For additional information, see "U.S. Transportation Infrastructure Sector Update And Medians: Not-For-Profit Toll Roads and Bridges," published Sept. 22, 2021, on RatingsDirect.

The rating reflects our opinion of the authority's strong enterprise risk and financial risk profiles, and also incorporates a system that is in the midst of an expansionary period with projects under construction that require a ramp-up period for traffic to meet escalating debt service requirements. Our enterprise risk profile assessment reflects our opinion that demand will increase over time as the Austin metropolitan area expands, as demonstrated by CTRMA's strong historical traffic trends. The authority's toll road network provides important linkages and congestion relief around Austin, despite some competition from free alternatives. Our financial risk profile assessment considers the CTRMA's strong revenue growth from annual toll rate increases and favorable traffic trends, which we expect will continue, allowing the authority to maintain strong financial performance and an adequate capacity to manage its increasing debt service requirements, which rise to approximately $170 million in 2040 from $72 million in 2021. The financial risk profile encompasses our expectation that COVID-19 and associated impacts on tolled traffic levels will largely be mitigated by prudent management actions including adjusting operating expenditures, deferring capital spending for nonessential projects, and increasing toll rates, if needed.

The CTRMA was well positioned both operationally and financially entering the pandemic with scheduled toll rate increase, significant population and employment growth compared with the U.S. average, and new roads coming online. However, like most other toll roads, the CTRMA saw mobility restrictions and associated health and safety conditions associated with the COVID-19 pandemic adversely affecting traffic and revenue beginning mid-March 2020. Transactions declined by about 47%-59% by April 2020 compared with April 2019 and ended the 2020 calendar year down approximately 10% compared with 2019. However, recent months of activity show transactions above 2019 levels for all segments CTRMA operates. This is a stronger recovery than that of other S&P Global Ratings-rated toll systems, with many of those still negatively affected in the 10% range through calendar 2021, in our opinion. Revenue performed stronger than transactions due to planned toll rate increases, only falling 1% in calendar 2020 compared with 2019, but similarly in terms of recovery growth. With new segments opening and ramping up with traffic, revenues have increased 38.9% for calendar year to date through August compared with 2019 levels.

Historical debt service coverage (DSC; S&P Global Ratings calculated) ranged from 1.73x-2.04x over the past three years (fiscal 2018-2020). The traffic and revenue forecast completed for the 183 North project estimates transactions will increase due to the opening of expansion projects over the next five years, including 183 South, 183A phase III, and 183 North. Including the impact of the expansion projects, transactions increase at a compounded growth rate of 6.8% through 2030, decrease to an average 2.7% through 2040, and decline to 1.0% by 2046. Also including the impact of expansion projects, revenues increase at a compounded annual growth rate of 10.4% through 2030 and then decrease to an average of approximately 5.5% growth through 2040. Based on historical performance and growth in the region, these estimates seem reasonable; however, risks remain that transactions and revenues could be lower than forecast due slower growth, economic downturns, shifting commuting patterns, and remote working. A material deviation from forecast transaction levels could pressure financial metrics, given the CTRMA's ascending debt service schedule. To the extent projected transactions are near forecast levels, financial forecasts provided by management show that the authority can maintain financial margins consistent with current ratings, with DSC ranging from approximately 1.6x-2.1x from 2021-2025. Overall, we believe this forecast is reasonable.

Key credit strengths, in our opinion, are the CTRMA's:

- Strong market position, resulting from the toll road's strong demand characteristics, given its important role as a regional urban infrastructure provider, with important linkages in the Austin area, despite nontolled alternatives;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth; and
- Very strong management and governance, reflecting the authority's conservative approach to financial and capital planning, history of meeting or exceeding most operational and financial goals, detailed financial forecasting that is updated frequently, and a very capable staff that has considerable experience operating a regional tolling agency.

Key credit weaknesses, in our view, are:

- Ongoing expansion projects with ramp-up periods in traffic and toll rate increases needed to enhance revenues to meet escalating debt service requirements; and
- Ongoing construction projects related to new segments that could incur higher-than-forecast costs or delays.

Environmental, social, and governance (ESG) factors

We analyzed the CRTMA's ESG risks and opportunities relative to its market position, management and governance, and financial performance and determined that all are in line with our view of the sector standard. Although the abatement of health and safety risks stemming from the pandemic reflected in the easing of social restrictions somewhat contributes to the outlook revision, long-term credit stability is supported by favorable demographic trends and economic growth within the Austin metropolitan statistical area (MSA) and represents a social opportunity that generates demand for the system.

Positive Outlook

Upside scenario

We could raise the rating in the next two years if the CTRMA's construction projects continue on schedule and within budget, and our expectation of toll traffic and revenues tracks near forecast estimates on a sustainable basis.

Return to stable scenario

We could revise the outlook to stable if CTRMA performs materially lower than forecast or experiences delays and cost increases related to the ongoing construction projects, and we believe the CTRMA's resultant financial metrics are no longer commensurate with the current rating.

Credit Opinion

The CTRMA owns and operates a toll road system in the Austin MSA that includes 183A phase I and II, 290 East, SH 71 East, SH 45 Southwest, 183 South, and 290E phase III, which are all operational; and 183A phase III and 183 North, which are starting construction and expected to be open for tolling in 2025 and 2026, respectively. The system benefits from having existing segments open and available to help support additional planned improvements. The authority has a record of completing roads to enhance and expand the system, providing additional diversity. 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, also 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. The 183 South project commenced full tolling April 2021. The SH 45 Southwest was substantially completed and opened to traffic on June 1, 2019, and was added to the system on Jan. 22, 2020. The SH 71 Express Project was added to the system on Feb. 22, 2017, and was substantially completed and opened to tolled traffic on Feb. 28, 2017.

The traffic and revenue study conducted for the CTRMA in connection with this bond issuance reviewed the existing toll roads of 183A Phases I & II, 290E Phases I, II, & III, SH 71 Express, SH 45 SW, and 183 South; and under-construction segments including the 183A Phase III Project and 183 North Express Lanes. Revenue is expected to increase $16.9 million once the 183A Phase III segment opens in 2025 and grow to $22.3 million by 2030. The 183 North Express Lanes are expected to open in 2026 with revenues increasing from $13.2 million to $30.6 million from 2026 through 2030, respectively. The model is based on socioeconomic data, which we view as strong in the Austin MSA, based on population growth of 2.0%-2.4% per year and employment growth of 1.2% per year, which we view as reasonable. The model also includes all free alternative routes, or competitors, in their trip pattern analysis but varies with each segment and their user profile. The forecast also assumes a long-term change with a shift in work-related travel behavior leading to work trips being reduced to 12.5% in 2025 from 30% in 2021, which provides the forecast some conservatism, in our opinion.

S&P Global Ratings expects U.S. economic activity and growth will accelerate in 2021 as public health conditions continue to improve. The steady pace of vaccination in the U.S. has allowed for the easing of capacity restrictions, with many state and local governments fully or partially lifting mask mandates. Vaccination progress is part of our assessment of U.S. economic and credit implications across public finance (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

A better vaccination outlook this summer, a faster reopening schedule, and $2.8 trillion from two stimulus packages have turbocharged the U.S. economic recovery this year and next, following the pandemic-induced slump. S&P Global Economics' current forecasts anticipate ending 2021 at a 6.7% real GDP growth rate in 2021 and rebounding to a slower growth phase heading into 2022, with 3.7% estimated for next year. Our risk for recession over the next 12 months is now 10%-15%, down sharply from the 20%-25% range in January and around the U.S. economy's long-term unconditional recession risk average of 13%. The U.S. unemployment rate in May fell to 5.8%, and we expect the national unemployment rate will likely reach its pre-pandemic level of less than 4% by first-quarter 2023. For more information, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," June 24, 2021.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 28, 2021)		
Central Texas Regl Mobility Auth		
Long Term Rating	A-/Positive	Outlook Revised
Central Texas Regl Mobility Auth		
Long Term Rating	BBB+/Positive	Outlook Revised
Central Texas Regl Mobility Auth sr ln		
Long Term Rating	A-/Positive	Outlook Revised
Central Texas Regl Mobility Auth sr ln (AGM)		
Unenhanced Rating	A-(SPUR)/Positive	Outlook Revised
Central Texas Regl Mobility Auth sr ln (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Positive	Outlook Revised
Central Texas Regl Mobility Auth sub ln (AGM)		
Unenhanced Rating	BBB+(SPUR)/Positive	Outlook Revised
Central Texas Regl Mobility Auth TIFIA		
Long Term Rating	A-/Positive	Outlook Revised

Many issues are enhanced by bond insurance.