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## Summary:

# Central Texas Regional Mobility Authority; Toll Roads Bridges

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## Summary:

# Central Texas Regional Mobility Authority; Toll Roads Bridges

### Credit Profile

Central Texas Regl Mobility Auth <i>Long Term Rating</i>	A/Stable	Upgraded
Central Texas Regl Mobility Auth <i>Long Term Rating</i>	A-/Stable	Upgraded
Central Texas Regl Mobility Auth TIFIA <i>Long Term Rating</i>	A/Stable	Upgraded

### Credit Highlights

- S&P Global Ratings raised its 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 to 'A' from 'A-'.
- At the same time, S&P Global Ratings raised its long-term rating and SPUR on the CTRMA's subordinate-lien debt outstanding to 'A-' from 'BBB+'.
- The outlook is stable.
- The rating action reflects our view of CTRMA's strong financial performance, meeting and exceeding financial metrics due to improving traffic volume and toll rate increases that we expect will continue.

### Security

The toll system's net revenues secure the authority's toll road revenue bonds and TIFIA loans. The 'A-' rating on the bond anticipation notes 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 bond 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.

### Credit overview

The rating action reflects our expectation that the authority will maintain strong financial metrics given robust traffic demand generating toll revenues that meet or exceed forecast levels despite some projects still under construction and escalating debt service requirements. The rating further reflects our view that the authority will proceed with planned expansion projects and management's expectation that construction will be completed on schedule and within budget. Furthermore, we believe management will adjust toll rates and expenses to meet financial forecasts.

The rating reflects our opinion of the authority's strong enterprise risk and financial risk profiles. Our enterprise risk profile assessment reflects our opinion that demand will increase as the Austin metropolitan statistical area (MSA)

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. We also view CTRMA's established toll rate-setting flexibility as strong, as evidenced by a 8.2% toll rate increase effective Jan. 1, 2023, in order to meet operational, debt service, and capital needs.

Our financial risk profile assessment considers the CTRMA's robust 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 adequate capacity to manage its escalating debt service requirements, which rise to approximately \$170 million in 2040 from \$88.6 million in 2022. Historical debt service coverage (DSC; S&P Global Ratings calculated) ranged from 1.3x-1.7x over the past three years (fiscal 2019-2022), which we view as strong. Based on historical performance, growth in the region, and management-provided financial cash flow forecasts, we believe CTRMA can maintain at least a strong financial risk profile.

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;
- Financial performance that has trended favorably, with DSC (S&P Global Ratings-calculated) fluctuating at levels we consider strong (1.25x-3.0x) supported by strong toll-rate flexibility;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a large population base, and 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**

We analyzed CTRMA's environmental, social, and governance risks relative to its market position, management and governance, and financial performance and determined that all are neutral in our credit rating analysis. However, social capital opportunities and favorable demographic trends that underscore economic growth within the Austin MSA can spur traffic demand for the system and, in our opinion, provide long-term credit stability.

## **Outlook**

The stable outlook reflects our expectation that CTRMA will continue to adjust toll rates and meet forecast traffic and revenue levels, allowing it to maintain financial metrics (S&P Global Ratings-calculated) consistent with a strong

financial risk profile.

### Downside scenario

Although unlikely, we could lower the rating if CTRMA's performance is materially lower than forecast or it experiences delays and cost increases related to the ongoing construction projects, and we believe the resultant financial metrics are no longer commensurate with the current rating, particularly given an escalating debt service schedule.

### Upside scenario

We could raise the rating in the next two years if 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, leading us to a very strong market position assessment.

## Credit Opinion

The CTRMA owns and operates a toll road system in the Austin MSA that includes 183A phase I and II, 290 East phase I, II, and III, SH 71 East, SH 45 Southwest, and 183 South, 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.

S&P Global Ratings believes that the U.S economy will fall into a shallow recession in 2023, although increased credit tightening stemming from recent events in the banking sector has elevated the likelihood of a hard landing. Supply-chain disruptions continue in certain sectors and, although inflation likely peaked in third-quarter 2022 as prices for goods moderated, prices for services excluding housing remain elevated. Our U.S. GDP growth forecast is 0.7% for 2023 and 1.2% for 2024. We also now expect U.S. GDP will decline by 0.3 percentage point from its peak in first-quarter 2023 to its third-quarter trough. If correct, this recession will beat the 2001 recession as the softest since 1960. We expect the unemployment rate, at 3.6% in February 2023 and just above its pre-pandemic level, will rise in 2023 and peak at 5.4% in second-quarter 2024 before declining in late 2025. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of the Federal Reserve's continued aggressive policy stance to keep interest rates higher until inflation declines toward its 2% target. We believe the federal funds rate will peak at 5.00% to 5.15% by May 2023 with the first interest rate cut in mid-2024. See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 11, 2023)		
Central Texas Regl Mobility Auth sr In (BAM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded

Ratings Detail (As Of May 11, 2023) (cont.)		
Central Texas Regl Mobility Auth (AGM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
Central Texas Regl Mobility Auth (AGM) (SECMKT) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
Central Texas Regl Mobility Auth (AGM) (SECMKT) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded
Central Texas Regl Mobility Auth (BAM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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