S&P Global
Ratings

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Summary:

Central Texas Regional Mobility Authority; Toll Roads Bridges

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Credit Profile		
US$250.29 mil TIFA (183 North Mobility Proj) ser 2021 due 01/01/2056		
Long Term Rating	A-/Stable	New

Rating Action

S&P Global Ratings revised the outlook to stable from negative and affirmed its 'A-' long-term rating and underlying rating (SPUR) on the Central Texas Regional Mobility Authority's (CTRMA) 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 $250.3 million subordinate TIFIA bonds, issued for the 183 North Mobility Project.

The outlook revision reflects our expectation that the CTRMA will maintain financial metrics consistent with the current rating in fiscal 2022 and beyond due to improving traffic volume and planned toll rate increases. The stable outlook further reflects the effects of the proposed TIFIA loan and expected bond refinancings that reduce debt service, and our expectation that the management team will continue to manage its budget and maintain credit quality consistent with the rating throughout the outlook period.

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 reflects 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 the subordinate pledge of net revenues and what we consider a low market risk profile, strong market access, and strong information disclosure. The 'A-' rating on the TIFIA loans reflects the provisions that allow for the subordinate TIFIA loans to become par with senior obligations. Although we view this as unlikely, the provisions caused us to equalize the rating with that on the senior debt, consistent with typical treatment of loans with this feature.

Bond proceeds will be used to refinance the 2021C BANs outstanding. The 183 North Mobility Project will add two tolled express lanes in each direction along approximately nine miles of the existing U.S. 183 between RM 620 south to Loop 1 (MoPac), including various transitional improvements, among them direct connectors to and from the MoPac improvement project and a one-lane collector distributor road along southbound Loop 1. The 183 North project also includes construction of pedestrian and bicycle facilities, and certain nontolled general-purpose and auxiliary lane improvements that are required for the construction and operation of the tolled improvements to 183 North. The total project budget is $612 million. The construction contract was awarded on Feb. 24, 2021, and the project is expected to open for tolling in early 2026.

The CTRMA has approximately $2.35 billion of pro forma debt outstanding, which includes senior-lien, subordinate-lien, and TIFIA debt. At fiscal year ending June 30 2020, unrestricted cash and investments totaled about $121.7 million, equal to approximately 1,172 days' cash and 6.8% liquidity to debt.

Credit overview

The rating action reflects our expectation that the authority will increase toll rates to enhance revenues and adjust expenses as needed to maintain consolidated financial metrics that are consistent with a strong financial risk profile. The rating further reflects the significant expansion projects at varying stages of completion or ramp-up and new expansion projects (183 North) starting during a time of potential increased transaction and revenue volatility in transactions and revenue due to lingering effects of the COVID-19 pandemic. In addition, the rating 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. We expect that financial results could be lower than historical results in the near term. For additional information, see "Updated Activity Estimates For U.S. Transportation Infrastructure Show Recovery For Air Travel Demand Accelerating And Public Transit Lagging," published July 29, 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, and incorporates the 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, although lowered due to COVID-19 impacts. This will allow 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 2020. The financial risk profile also reflects our expectation that COVID-19 and associated impacts on tolled traffic levels will cause a drag on financial performance in fiscal 2022, but that the CTRMA will be able to maintain future financial metrics beyond 2022 consistent with the current rating, due to what management projects will be a relatively quick recovery in traffic levels, and its ability to adjust operating expenditures, defer capital spending for nonessential projects not yet started, and increase toll rates, if needed.

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 an average of 11.6% through 2030, decrease to an average 2.9% through 2040, and decline to 1.0% by 2046. Based on historical performance and growth in the region, these estimates seem reasonable; however, risks remain that transactions could be lower than forecast due to lingering effects of the pandemic such as restrictions imposed in response to coronavirus variants, 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 the current rating, with DSC ranging from approximately 1.4x-1.9x from 2021-2025. We believe this forecast is reasonable, but there is considerable risk to the downside if transaction growth is lower than expected.

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
- Potentially lower than expected traffic levels due to lingering effects of the pandemic, resulting in weaker revenue performance in the near term.

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.

Stable Outlook

Downside scenario

We could lower the rating if there are sustained declines in revenue or delays and cost increases related to the ongoing construction projects, and we believe the CTRMA's resultant financial metrics are consistent with a lower rating.

Upside scenario

We could raise the rating in the next two years if toll traffic activity continues to improve and if the CTRMA's construction projects continue on schedule and within budget, and our expectation of continued growth in toll traffic and revenues meet forecast estimates.

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 system segments open and available to help support additional planned improvements. The authority has a record of completing roads to enhance and expand the system, adding additional diversity to 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, 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.

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 August 20, 2021)		
Central Texas Regl Mobility Auth		
Long Term Rating	A-/Stable	Affirmed
Central Texas Regl Mobility Auth		
Long Term Rating	BBB+/Stable	Affirmed
Central Texas Regl Mobility Auth sr ln		
Long Term Rating	A-/Stable	Affirmed
Central Texas Regl Mobility Auth sr ln (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 20, 2021) (cont.)		
Central Texas Regl Mobility Auth sr ln (AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Central Texas Regl Mobility Auth sub ln (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Central Texas Regl Mobility Auth TIFIA		
Long Term Rating	A-/Stable	Affirmed
Many issues are enhanced by bond insurance.		