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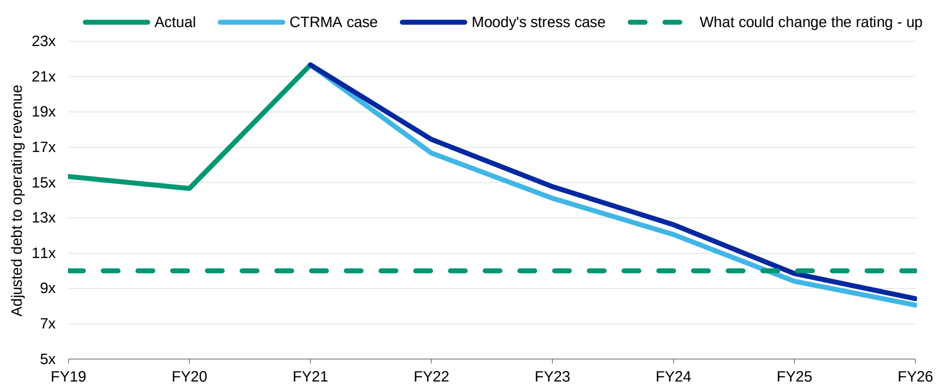
Central Texas Regional Mobility Authority, TX

Update following upgrade of all liens

Summary

Central Texas Regional Mobility Authority's (CTRMA, A3 stable) improved credit is driven by very strong economic growth in the region that is producing a robust recovery from the pandemic, while a string of debt refundings for savings have provided more room for the debt issued for CTRMA's new projects. CTRMA's continued implementation of annual CPI-U indexed-based toll rate increases and resilient traffic throughout the COVID-19 outbreak provide the opportunity to outperform CTRMA's current forecast, an important mitigant to escalating debt service requirements. Leverage measured by adjusted debt to operating revenue increased to 21.7x in fiscal 2021 but will moderate over the next five years to below 10.0x if new facilities meet forecast revenue. CTRMA's liquidity remains very strong above 1,000 days cash on hand.

Exhibit 1
CTRMA's leverage peaked after fiscal 2021's new issuance, but will decline with revenue growth



Moody's stress case assumes 5% revenue cut
Source: Moody's Investors Service

We recently upgraded senior lien bonds to A3 from Baa1, subordinate TIFIA loans to A3 from Baa1 and subordinate bonds to Baa1 from Baa2.

Credit strengths

» Austin remains one of the fastest growing metropolitan areas in the US and the economy continues to benefit from ongoing industrial diversification

» 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 requirements escalate steeply through 2030

» Authority has been identified as lead agency to develop new projects in the regional 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 the Austin region will continue to see strong economic and corresponding traffic growth, that CTRMA will continue implementing its toll rate policy, and that no significant new construction projects will be undertaken over the next few years.

Factors that could lead to an upgrade

» Sustained and projected total debt service coverage ratio above 2.0x on a net revenue basis

» Leverage, as measured by debt plus ANPL to operating revenue, below 10.0x;

» High visibility of 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 183N and/or 183A Phase III projects 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 and are not fully supported by new revenues

Key indicators

Exhibit 2
Central Texas Regional Mobility Authority

	2017	2018	2019	2020	2021
Total Transactions Annual Growth (%)	13.9	13.5	5.9	5.9	21.8
Operating Revenue ($'000)	75,651	91,492	108,314	116,934	115,479
Debt Outstanding ($'000)	1,258,555	1,346,135	1,657,822	1,708,474	2,493,191
Adjusted Debt to Operating Revenues (x)	16.7	14.8	15.3	14.7	21.7
Days Cash on Hand	1,795	1,675	2,660	1,786	2,522
Senior Lien Debt Service Coverage by Net Revenues (x)	2.89	2.66	2.83	2.26	1.79
Total Debt Service Coverage By Net Revenues (x)	1.97	1.88	1.97	1.63	1.29

Source: Moody's Investors Service

Profile

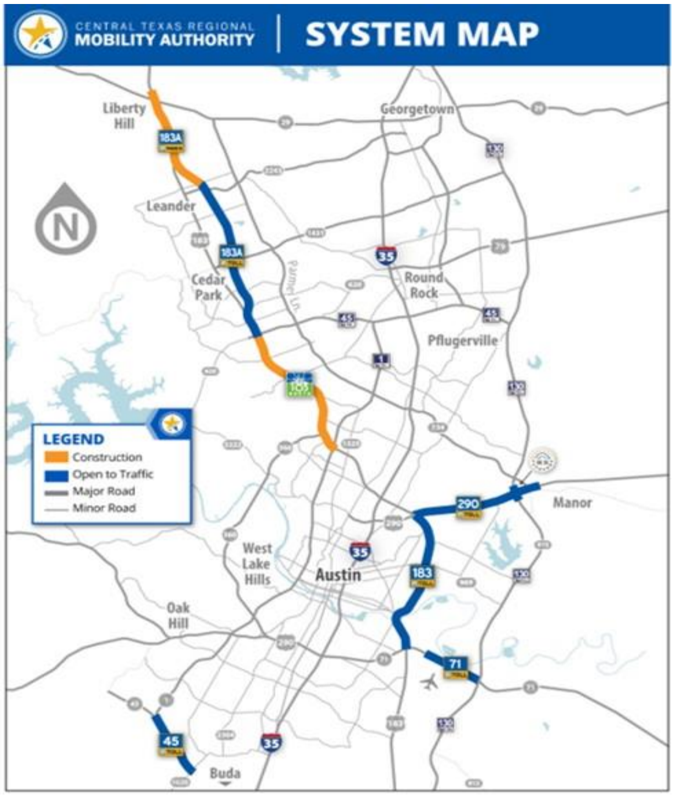
The CTRMA is an independent government agency created in 2002 to improve the transportation system in Williamson and Travis counties.

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, Williamson, and Travis counties, connecting at its southern end to the western end of SH 45 that opened in 2007. The 183A Phase III project (under construction) will expand that facility north by 6.6 miles, 5.3 miles of which will be tolled. CTRMA projects are part of an integrated system of new toll roads in the greater Austin area. The Authority also operates Phase I, Phase II, and Phase III 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. The SH71 project links the 183S to the Austin airport.

The 183S project consists of six toll lanes and up to six non-toll lanes between US 290E and SH71 and consists of two phases. The first phase was opened to tolling in August 2019. Two northbound toll gantries and two southbound toll gantries were opened to tolling on January 2021. The project was fully open to tolling on April 20, 2021.

The 183N project, will add two tolled express lanes in each direction along approximately nine miles of the existing US 183 between RM 620 south to Loop 1 (MoPac), the addition of a direct connector, general purpose lanes and other improvements. Future projects under consideration include the MoPac South.

Exhibit 3
CTRMA System Map



Source: CTRMA

Detailed credit considerations

Revenue Generating Base - Austin retains high growth potential despite current recession and supports 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 resumes, thereby pushing demand along existing facility corridors.

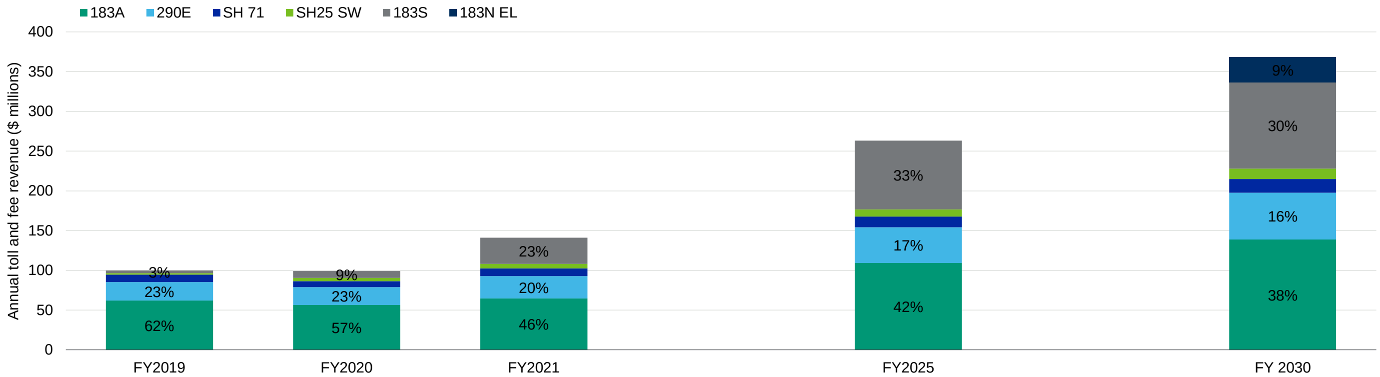
Moody's Analytics expects Austin's economy to accelerate over the coming year and significantly outperform the nation as a whole. Tech, professional services, housing and manafacturing will lead the way. Longer-term, Moody's Analytics thinks the area's strength of high tech exposure, well educated labor force and relatively low business costs will keep the region near the top of employment growth measures through the 2026 forecast horizon.

Continued new home development in the region will benefit CTRMA's facilities as the areas around them fill in. Home sales are still growing, though the pace has decelerated as the 7% increase in house prices over the past year, twice the national average, has caused affordability to decline. Building remains strong, with new single-family permits near their peak in 2006 and multifamily permits also elevated.

As CTRMA opens new facilities, revenue generation is diversified away from the 183A corridor and increasingly captures more of the region (see Exhibit 3), a credit positive. The 183S project fully opened to tolled traffic in fiscal 2021, providing a large boost to revenue collection. 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 the coming years to support the system revenues.

Exhibit 4

CTRMA's revenue base diversified with the opening of 183S to full service in fiscal 2021. will further diversity over time



Source: CTRMA

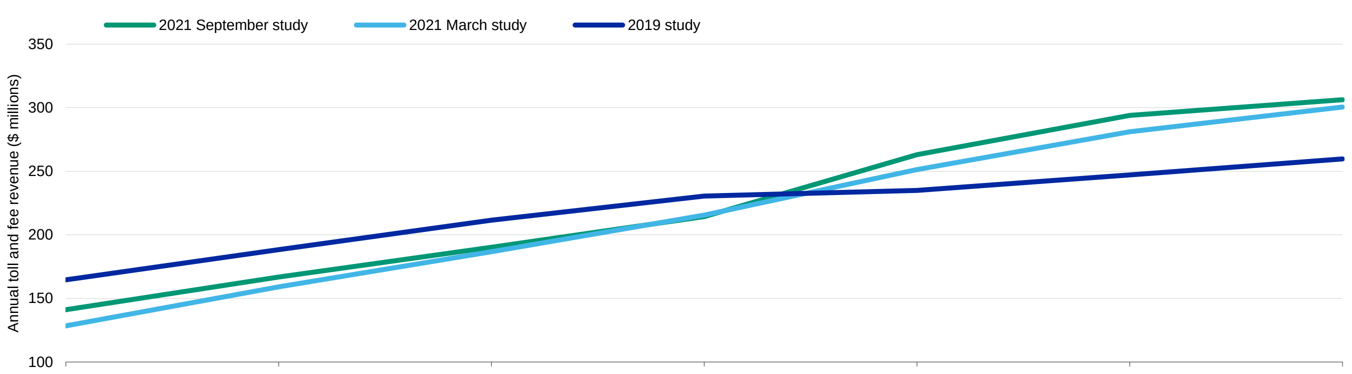
CTRMA's demonstrated implementation of the toll increase policy supports the credit and mitigates some of the risks posed by the steeply escalating debt service requirement profile. Despite CTRMA's adopted tolling policy that pegs increases to annual CPI-U, the board voted to increase rates by 2% for fiscal 2016 even though Austin CPI-U grew 0%. There has been no local push back on toll increases, with all electronic toll collection (AETC) systemwide facilitating adjustments. In fiscal 2021, toll rates increased by 1.37%, in line with Austin's CPI-U growth during the rolling twelve month period ending October 2020. Given national CPI metrics, its likely that Austin's CPI will be strong and exceed the 2% assumed in the traffic consultant's forecast, resulting in greater than projected revenue.

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. The authority recently issued the notice to proceed on the 183N project which will support revenue growth starting 2026 when the construction is complete and it is open to tolling. The 183N managed lane project has favorable characteristics, like multiple lanes in each direction and established demand along the corridor, that have led to similar managed lane projects to meet the initial revenue forecast.

The traffic and revenue forecast provided with the new issuance increases near-term projections based on recent performance, but remains below revenue collection projected prepandemic in the 2019 study (see Exhibit 4). The near-term increase was caused by faster than expected ramp-up on 183S and higher trip generation during the pandemic compared to model assumptions. After 2025, the revenues are expected to be higher compared to the prior year's studies reflecting the addition of 183N to the system. Our slow-growth case assumes 5% lower revenues and a similar ramp-up for 183N and 183A Phase III projects compared to the current T&R study.

Exhibit 5

Despire near-term revisions upward, CTRMA's consultant traffic case remains conservative below the forecast in 2019



The 2019 study did not include the 183A Phase III or 183N Express Lanes projects

Source: CTRMA

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 near current levels. Operating revenue (toll and fee revenue) decreased by 1.2% in fiscal year ended June 30, 2021 versus fiscal 20120. The slow revenue collection reflected the major effects of the pandemic as well a ten-day facility closure in February 2021 caused by winter weather and energy distribution issues throughout Texas. On our net revenue basis, which includes all expenses identified on CTRMA's audited financial statements, the debt service coverage ratio (DSCR) on senior lien bonds decreased to 1.79x in fiscal 2021 from 2.26x in fiscal 2020, while DSCR on total debt decreased to 1.29x from 1.63x. The moderate drop in debt coverage ratios resulted from lower net revenue and larger debt service obligations. On a bond ordinance basis, which recognizes only operating expenses of the system, senior lien and total DSCRs stood at 1.86x and 1.52x in fiscal 2020, respectively.

Net revenue DSCR should improve annually as revenue growth outpaces annual increase in debt service requirement and exceed 2.0x by fiscal 2026 in both CTRMA's case and our stress case.

LIQUIDITY

Liquidity remains very strong at 1,786 days cash on hand in fiscal 2021, 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.

CTRMA will incrementally fund the DSRF on select subordinate lien bonds over the next four years, reaching a funded amount of around $9 million in fiscal 2024.

Debt and Other Liabilities - Leverage will moderate following debt issuances in 2021

DEBT STRUCTURE

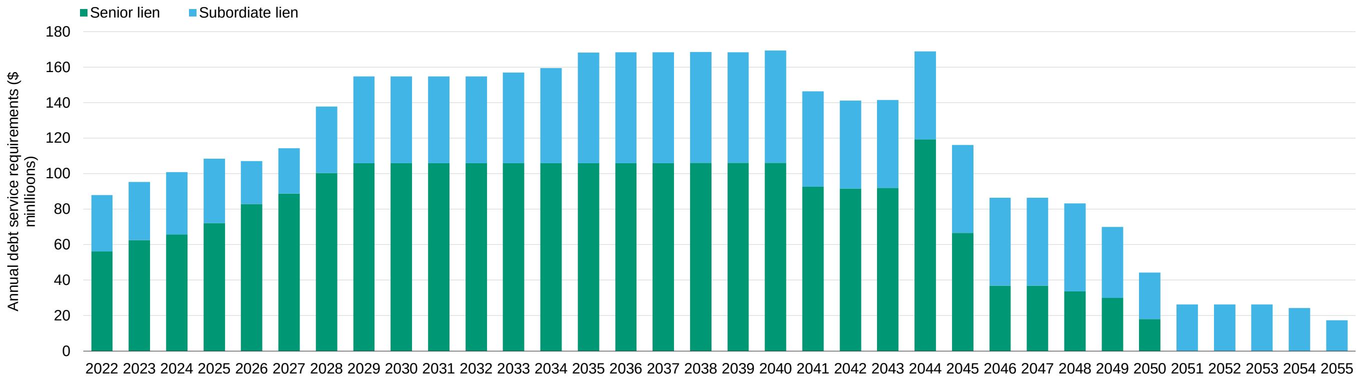
CTRMA's highly leveraged debt structure is its primary credit challenge, though debt issuance will slow following the issuance of Series 2021 debt. CTRMA's Series 2010 capital appreciation bonds accrete through fiscal 2025 and the Series 2011 capital appreciation bonds accrete through 2022. The majority of CTRMA's debt is on the senior lien ($1.54 billion) while the remainder is on the subordinate lien ($936 million). All debt is fixed rate.

The subordinate TIFIA Loans, which are subordinate in the flow of funds, has a springing lien provision in the event of a bankruptcy related event. The Series 2021A loan updates the definition of bankruptcy related event to include two consecutive missed payments, as is now standard in recent TIFIA loans. We therefore consider the TIFIA loan's credit strength to be a parity with senior lien bonds.

The Series 2018, Series 2020F and Series 2021C subordinate lien bonds represent a small amount of credit risk. These subordinate bonds were issued as bond anticipation notes maturing in 2022, 2025 and 2027, respectively. CTRMA will refund Series 2018 and Series 2020F notes with proceeds of the 2021A TIFIA loan. CTRMA entered a new TIFIA loan for the 183N project, which would be used to pay the maturity of the Series 2021C notes. It is our experience that TIFIA loans tie loan disbursements to substantial completion of the project. If construction of any project were significantly delayed, TIFIA may not fund its commitment and CTRMA would need to either roll the notes or redeem them with liquidity. Risk is low given the scope of the construction projects and ample liquidity balances.

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

Exhibit 6
Annual debt service requirements will roughly double



Source: CTRMA

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

Pension exposure does not pose a significant credit risk. CTRMA's pension obligations, on our adjusted pension net liability (ANPL) basis, were very manageable at $9.1 million in fiscal 2021. CTRMA reports a pension asset of $591,000

ESG considerations

Environmental

Overall, toll road issuers face limited impact from environmental risks, including CTRMA. Of our key risk categories, CTRMA is most exposed physical climate risks which are manageable. Moody's affiliate Four Twenty Seven evaluates the Austin region to face high risk of water stress and medium risk from heat stress, hurricanes and extreme rainfall. These risks are manageable given that disruption to operations would be intermittent. We do not expect carbon transition to pose material risks as electric vehicles also pay tolls on CTRMA's facilities.

Social

Social considerations are generally positive for CTRMA, given the positive attributes of Austin's growing population, expanding labor force, and high educational attainment. That said, high toll rates can lead to user pushback, but there are free general purpose and frontage lanes adjacent on many of CTRMA's facilities, reducing this risk compared to other toll roads that provide the sole form of connectivity to certain destinations.

Governance

CTRMA's governance is neutral. While favorable attributes of financial strategy like policies to maintain high liquidity support strong governance considerations, it is balanced with CTRMA's high tolerance of leverage.

CTRMA's organizational and board structure and policies are also well defined. 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 Capital Area Metropolitan Planning Organization (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 - Scorecard Mapping

Please see the Publicly Managed Toll Roads and Parking Facilities rating methodology published March 2019 for more information about the limitations inherent to scorecards. The scorecard indicated outcome uses audited financial results from fiscal 2021. The scorecard indicated outcome is A3 matches the assigned A3 rating for senior lien bonds, which are the majority of debt outstanding.

Exhibit 7

Publicly Managed Toll Roads and Parking Facilitie

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	A	
	b) Competitive Position and Environment	A	
	c) Economic Strength and Diversity of Service Area	Aa	
2. Performance Trends	a) Annual Revenue	Baa	$115.5 m
	b) Operating Track Record and Revenue Stability	A	
	c) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	A	1.29
	b) (Debt + ANPL) to Operating Revenue	Caa	21.7x
Notching Considerations		**Notch**	
	1 - Debt Service Reserve Fund level	0.0	
	2 - Open/Closed Flow of Funds	0.0	
	3 - Days Cash on Hand	1.0	
	4 - Asset Ownership and Financing Structure	-1.0	
	5 - Leverage Outlook	0.0	
Scorecard Indicated Outcome:		**A3**	

Source: Moody's Investors Service

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CLIENT SERVICES

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EMEA	44-20-7772-5454

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