



Rating Action: Moody's assigns Aa2 to Harris County Toll Road Authority, TX's Series 2023A Revenue Refunding Bonds; outlook stable

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New York, May 24, 2023 – Moody's Investors Service has assigned an Aa2 rating to the Harris County Toll Road Authority, TX's (HCTRA) \$125 million Toll Road First Lien Revenue Refunding Bonds, Series 2023A. Moody's maintains Aa2 ratings on \$717.6 million of HCTRA's parity first lien revenue bonds, as well as Aa1 ratings on \$1.3 billion of HCTRA's senior lien revenue bonds, post-refunding. The outlook is stable.

RATINGS RATIONALE

The Aa1 and Aa2 ratings reflect HCTRA's strong market position that includes 830 lane miles in the Houston metro area. HCTRA's toll road system plays a critical role within the region's transportation network system that serves a large, rapidly growing and increasingly diverse economy heavily dependent on surface transportation for commuting.

The ratings also reflect strong and resilient financial performance trends. Although total revenue and transactions for the toll road system declined during the pandemic, calendar year 2022 (CY22) activity show a full recovery in both metrics that exceeded 2019 levels, with total revenue of \$942.7 million in CY22 (versus \$847.9 million in CY19) and total transactions of 618.1 million (vs 573.2 million in CY19). Debt service coverage ratios mirror a similar recovery, with fiscal 2022 (FY22) total debt service coverage of 2.64x, up from 1.70x in FY21, but still below the 3.30x in FY20. We expect DSCRs to be at or above 3.0x in FY23 given the strong recovery in traffic and revenue; of note, the county changed its fiscal year end reporting date in FY22 to September from February. Leverage is also expected to decline as revenue trends improve.

Strong DSCRs and liquidity (approximately \$1.1 billion in available cash and investments at FY22 year-end) also mitigate revenue disruptions from localized flooding events in the region, an environmental risk in Moody's ESG framework. The open flow of funds that supports substantial annual transfers out of the authority to the county for mobility projects is credit weakness, though the financial strength of Harris (County of) TX (Aaa stable) limits the potential for excess draws that would weaken the health of the toll road system. A sizeable capital improvement plan that exceeds \$2.2 billion through 2027, including the \$1.45 billion Ship Channel Bridge, also weighs negatively on the rating.

The rating distinction between the Aa1 senior lien bonds and the Aa2 first lien bonds reflects HCTRA's covenant to close the senior lien to new debt issues and HCTRA's plan to gradually move debt issued on the senior lien to the new first lien that is subordinate to senior lien bonds. The new first lien bonds will become the working lien, but the majority of debt will remain on the senior lien for some time given HCTRA's plans to refinance the debt only when current refunding opportunities present themselves.

RATING OUTLOOK

The stable outlook reflects Moody's expectation of modest transaction growth that will support growing revenue, that the county will maintain adequate liquidity, and that HCTRA will implement rate increases as necessary to maintain financial metrics near historic levels.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- The Aa1 rating on the senior lien, the highest in Moody's rated toll road portfolio, is unlikely to be upgraded given

the current rating level

- Moody's does not expect the Aa2 rating on first lien bonds to go up in the medium term though continued strong growth, low leverage and annual rate increases would contribute to positive pressure

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Increased leverage due to cost overruns that lead to weakened financial metrics
- Total DSCR below 2.0x
- Adjusted debt to operating revenue above 5.0x
- Days cash on hand below 400 days

LEGAL SECURITY

The senior lien revenue bonds are special obligations of the county, secured by a senior lien on the trust estate established under the existing 2015 senior lien revenue bond indenture, which includes a gross pledge of funds in the debt service and debt service reserve fund (DSRF) and all revenues of the toll road system. The rate covenant requires toll revenue collection sufficient to produce revenues that provide at least 1.25x aggregate debt-service coverage on toll road senior lien revenue bonds accruing in such fiscal year. The senior lien DSRF, which is fully funded, is to be funded at not less than average annual aggregate debt service and not more than maximum annual debt service.

The first lien revenue bonds are also special obligations of the county, secured by a first lien on, pledge of and security interest in the Trust Estate established under a new revenue bond indenture, which includes a pledge of all revenues derived from the operation of the toll facilities comprising the Harris County Toll Road System, subject to and subordinate in all respects to any lien or pledge granted with respect to senior lien revenue bonds under the 2015 Indenture. The first lien bonds also benefit from a 1.25x rate covenant and the covenant that HCTRA will not issue new debt on the senior lien once the Series 2023A bonds have been issued and used to defease the Senior Lien 2007B bonds and associated swap agreements.

USE OF PROCEEDS

Bond proceeds will be used to refund and defease HCTRA's outstanding 2007B senior lien variable rate revenue bonds, as well as terminate the senior lien swap agreements associated with the refunded bonds. Proceeds will additionally be used to fund a debt service reserve fund and pay the cost of issuance.

PROFILE

HCTRA operates a well-established multi-asset tollway system in the Houston/Harris County metropolitan area. HCTRA's system includes 128 center lane miles and 830 lane miles. The HCTRA system connects with toll roads in Ft. Bend, Brazoria, and Montgomery Counties.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Toll Roads and Parking Facilities published in May 2023 and available at <https://ratings.moodys.com/rmc-documents/403120>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be

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