Upgrade buoys a $1.2 billion express-lane deal in Texas

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In one of the largest Texas deals of 2019, the North Tarrant Express Mobility Partners will price $1.2 billion of taxable and tax-exempt refunding bonds on Tuesday.

Coming to market through the conduit Texas Private Activity Bond Surface Transportation Corp., the bonds will have two tranches bearing senior liens, one tax-exempt and the other taxable.

The $331.5 million tax-exempt Series A term bonds with maturities in 2031 and 2039 is not subject to the alternative minimum tax provisions of the Internal Revenue Service. The $871 million Series B maturing in 2049 is taxable.

Series A will repay the $400 million of outstanding senior PABs that are currently rated Baa2 by Moody's Investors Service. The Series B bond proceeds will repay an outstanding subordinate federal loan.

The new bonds brought a Fitch Ratings upgrade to BBB from BBB-minus with a stable outlook.

“The upgrade reflects an extended period of strong traffic and revenue growth leading to positive revisions of Fitch's cash flow projections,” Fitch director Scott Monroe said. “Financial metrics migrated upwards to levels consistent with the 'BBB' rating level as a result.”

Moody’s Investors Service, which had split ratings on the previous loans at Baa2 and Baa3, conferred the higher rating on the refunding bonds and maintained a stable outlook.

“While there is an increase in leverage at the senior lien level and the senior lien bonds no longer benefit from the cushion provided by the sizable subordinate TIFIA loan, the post-sale total senior lien bonds' forecast financial metrics provide sufficient total debt service coverage to remain at the same Baa2 rating level as total leverage remains manageable,” Moody’s senior vice president John Medina wrote.

JPMorgan is book runner with executive directors Marshall Kitain and Ben Djiounas as lead bankers.

North Tarrant Express Mobility Partners is a consortium led by toll-road developer Cintra U.S. that won the rights to develop managed lanes on several highways connecting to and including sections of Interstate 35 West in Fort Worth. Begun in 2010 and completed in 2014, the $2.5 billion NTE added 13.3 miles of managed lanes to the redeveloped sections of state highways 121, 183, Interstate 820 and I-35W.

Variable tolls on NTE’s Texpress managed lanes are based on travel time based on a 50 mph traffic flow on the highway.

In the Fitch upgrade, Monroe cited “five years of demonstrated solid demand and pricing power.”

“The project has performed well since its opening in 2014, exceeding Fitch's base and rating case projections in most years,” Monroe said. “In the first three quarters of fiscal 2019, the facility generated tolled traffic and revenues of 25.3 million and $112.3 million, respectively. These performance levels are strong, beating budgetary expectations by 8.5% and 16.5%, respectively.”

The PABs and taxable revenue bonds are backed by a first lien on net project revenues and debt service reserve accounts backed by credit facilities.

Future maintenance costs will come from project cash flows to a major reserve fund.

Fitch anticipates pledged revenues running 230% above debt-service coverage from 2020-2029 and 270% over the debt life.

“Minimum rating case [debt-service coverage ratio] is a still-solid 1.9x in 2030,” analysts said. “The minimum toll revenue [combined annual growth rate] to break even is just 1.2%, suggesting the facility benefits from a significant buffer against potential long-term underperformance.”

In a separate report on managed lanes, a Fitch team led by Monroe cited strong fiscal 2019 performance by Fitch-rated managed lanes in line with a longer trend of robust performance.

“A lack of robust historical recessionary performance data results in limited visibility as to how MLs will perform in the next recession,” Fitch said. “We continue to use conservative assumptions in our rating case cash flow projections as it relates to the effects of economic volatility.”

Of the 13 managed lane projects Fitch rates, only the Orange County Transportation Authority’s State Route 91 Express Lanes in Southern California was open in the 2008 recession.

“In comparison to standard toll roads, OCTA’s Express Lanes had 29% higher traffic losses and 41% higher revenue losses through the recession, respectively,” analysts said. “OCTA was able to raise prices through the recession, thus significantly mitigating traffic losses.”

Managed lanes create a hybrid blend of freeway and tollway. Drivers pressed for time can choose to pay for faster speed by switching into tolled lanes on the same thoroughfare. Managed lanes evolved from high-occupancy vehicle lanes that were free to vehicles with more than one passenger, and in many cases offer free passage to carpools. NTE and some others do not provide free rides for multi-passenger vehicles, which analysts note as a favorable factor in the ratings.

“For roadways already free, but in need of capacity enhancements, adding MLs can be feasible,” Fitch said. “The prospect of adding a toll to previously free lanes is frequently viewed as a non-starter.”

Managed lanes rated by Fitch have seen median revenue increases of 21% in fiscal year 2019.

“The lion’s share of projects beat our base case cash flow projections in most years since at least 2015,” analysts said. “This outperformance is driven by a combination of a long period of accommodative economic conditions, relatively low gas prices and generally higher growth in regions with MLs.”

Fitch now has twice as many projects to rate compared with four years ago, its analysts noted.

Over the next year, Fitch-rated managed lane projects are expected to finish construction in California, Colorado, North Carolina and Texas, analysts said.

“Although most are running roughly on time some projected completion dates were pushed back,” they said. “To date most issues were sufficiently mitigated by construction security packages and flexible debt structures, such that credit quality was not materially affected.”

One project, Colorado’s C-470, saw its Fitch rating of BBB placed on negative watch.

Fitch forecasts U.S. economic growth will slow for calendar year 2019 to 2.3% from 2.9% in 2018, and will slow further to 1.7% in 2020.

“Slowing GDP growth during trade and geopolitical uncertainty call into question whether future conditions will be as supportive to growth as the past several years,” analysts said.

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