Harris County (TX) [Toll Roads]

Ratings

Harris County(TX) / Toll Revenues – Senior Lien – 1 (LT)	AA
Harris County(TX) /Toll Revenues – First-Lien – 1 (LT)	AA

Outlook

Stable

Applicable Criteria

Transportation Infrastructure Rating Criteria (January 2025)

Infrastructure & Project Finance Rating Criteria (January 2025)

Related Research

Fitch Rates Harris County, TX's Toll Road First Lien Revenue Refunding Bonds 'AA'; Outlook Stable (May 2024)

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Fitch Ratings views the Harris County Toll Road Authority's (HCTRA) essential road network in the large and economically solid Houston region, where limited viable alternatives drive strong traffic volume, as a key credit strength. The rating also reflects the authority's prudent financial management and history of strong and growing traffic and revenue performance. The authority shows robust financial metrics in Fitch's rating case, with a very high Fitch-calculated average 10-year gross senior and first-lien debt service coverage ratio (DSCR) of 10.8x and 5.2x, respectively.

Fitch-calculated leverage (net debt to cash flow) is very low, with leverage turning negative on the senior lien in year five (2028), supported in part by available cash and reserves exceeding outstanding senior lien debt. The 2028 consolidated leverage on the first-lien is 1.5x, reflecting the strong balance sheet liquidity that the authority maintains. These strengths are modestly offset by the authority's large capital plan, which will require additional debt issuances, and large annual subordinate transfers to the county.

The authority has implemented a new toll policy as of fiscal 2024, which is expected to encourage the use of EZ-Tag users and reduce leakage costs. Further, the authority has deferred the annual adjustment to toll rates every year since 2016, and the adjustment factor requires final approval from the commissioner's court. Some uncertainty regarding the effecting of future increases to tolls over a prolonged period suggests some political pressure on rate setting.

Key Rating Drivers

Revenue Risk – Volume – 'High Stronger'

Proven Resilience and Traffic Demand

HCTRA's toll road facilities provide vital transportation links with a strong monopolistic position in the Houston metropolitan area and an established and stable traffic demand profile. System traffic has increased nearly every year since fiscal 1998, supported by the authority's continuing expansion in a large and rapidly growing metropolitan region. Toll rates are moderate, and the historical elasticity of demand is low.

Revenue Risk – Price – 'Midrange'

Rates Subject to Board Approval

The Midrange score reflects Fitch's view of the uncertainty regarding future toll rate increases. Despite the fact that the current toll policy allows for an annual adjustment factor of the greater of CPI or 2%, the authority has deferred the adjustments every year from 2016 to 2023, and the rates were left unchanged in the current fiscal period. Given the fact that the commissioners' court has the ability to review and adjust rates as deemed appropriate, a certain level of political considerations exists.

The authority's new toll rate policy reflects HCTRA's shift to a cashless system. Toll rates will be based on the payment method, with two-axle EZ-Tag users receiving a 10% discount to encourage more EZ-Tag transponder penetration in the region. The policy is expected to reduce leakage and collection costs and provide the authority with flexibility to maintain a strong financial profile.

Infrastructure Development and Renewal – 'Stronger'

Manageable CIP with Prudent Policies

HCTRA's large five-year capital improvement plan (CIP) is funded primarily by a mix of system operating revenues and bond proceeds. The authority adheres to strong capital planning policies that do not allow deferred maintenance, limit leverage to four to five times toll revenues, and make use of significant pay-as-you-go funding resources. These strengths are offset by large annual subordinate transfers to the county that could be increased and could leave the authority more dependent on debt issuances for future projects.

Debt Structure – 1 – 'Stronger'; Debt Structure – 2 – 'Stronger'

Conservative Debt Structure

Fitch assesses the debt structure of both the senior and first-lien bonds as 'Stronger'. The senior lien is now closed, with no future new money debt to be issued at the senior lien level. Fitch considers the first-lien (junior) to be the operational senior lien for future debt issuances.

The overall capital structure consists of fixed-rate, fully amortizing debt. Debt service remains flat over the next 10 years and then begins to decline throughout the debt maturity. Structural features are strong overall, and the authority maintains cash and surety-funded debt service reserve funds (DSRF). While the Series 2024A First-Lien Revenue Bonds are not being issued as participants in the first-lien DSRF, Fitch still views the structure as adequate given the 2.0x DSCR trigger that would require authority to commence funding the Series 2024A DSRF.

Financial Profile

The authority benefits from strong balance sheet liquidity and high coverage ratios, highlighted by growing cash balances and a robust rating case gross DSCR averaging 10.8x (first-lien), 5.2x (second-lien), and 4.9x (third-lien) over the next 10 years (2024-2033). Rating case leverage metrics in year five (2028) are minimal, with negative leverage on the first-lien, 1.5x on the second-lien, and 1.6x on the third-lien.

Financial metrics weakened to some extent as part of the Series 2024A issuance and may show further weakness due to future debt issuances, but Fitch expects metrics to remain at levels consistent with the 'AA' rating category.

Peer Analysis

HCTRA's most comparable large expressway network peer is the Illinois State Toll Highway Authority (ISTHA; AA-/Stable). Although ISTHA also benefits from a large and economically diverse catchment area, its lower rating reflects weaker financial metrics compared to HCTRA, including lower total debt service coverage of 2.0x and higher total leverage of 6.6x.

Another comparable large expressway peer is the Central Florida Expressway Authority (CFX; A+/A/Stable). CFX also benefits from a large and economically strong regional market in Orlando. The lower rating on CFX compared to HCTRA reflects lower debt service coverage metrics, with rating case coverages of 1.9x on the senior and subordinate liens.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A material reduction in rating case combined (senior and first-lien) DSCR to significantly below 2.5x for a prolonged period;
- A substantial increase in subordinate transfers from the system, leading to reduced liquidity and higher dependence on debt to finance future CIP needs.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Given the credit's already high rating level, a further upgrade is unlikely due to future investment together with sector-wide risks inherent to toll roads.

Overview

HCTRA operates a ring-road system around Houston with bisecting routes that connect surrounding areas to downtown Houston. The system consists of 15 road segments, including 128 miles of roadway. The ring-road is the Sam Houston Tollway, which generates the bulk of total toll revenues. The Hardy Toll Road connects to downtown Houston at its southern terminus and extends north of the Sam Houston Tollway to an adjacent county and bedroom community. Harris County encompasses the city of Houston and is the largest county in Texas and the third-largest in the nation.

Latest Developments

Fiscal 2024 (ended on September 30) traffic has remained strong, increasing 2% compared to fiscal 2023, reflecting the continued travel demand in Harris County. Transactions for fiscal 2024 ended at 648 million, which was largely in line with Fitch's prior base case expectations of 650 million. Fiscal year-to-date (YTD) 2025 traffic is also trending positively, increasing 2% compared to the same period in the prior fiscal year.

Combined gross DSCR on the senior lien and first-lien remained robust, coming in at 6.1x for fiscal 2024, which was also consistent with Fitch's prior base case expectations of 6.1x. The authority's liquidity also remained exceptionally strong, with a Fitch-calculated 1,594 days cash on hand (DCOH) for fiscal 2024, well above the authority's internal policy to maintain a DCOH of at least 730 days.

Key Features

Project Summary Data

Project type	Toll Road
Project location	Houston, TX
Project status	Operational
Revenue basis	Volume
Applicable regulation	U.S., State Law
Operator	HCTRA

Source: Fitch Ratings

Financial Summary Data

Rated debt terms	• Senior Lien: $1.09 billion outstanding (as of fiscal 2025). • First Lien: $1.66 billion outstanding (as of fiscal 2025). • Subordinate Lien: $109 million outstanding (as of fiscal 2025).
Amortization profile	Fully amortizing.
Reserves	DSRF • Senior Lien: No less than ADS; no more than MADS; FGIC sureties plus cash and investments. • Junior/First-Lien: 100% ADS, cash-funded (does not include the 2024A First Lien Bonds).
Transaction triggers	Additional Bond Test • Senior Lien: Closed. • Junior/First Lien: DSCR in 12 to 24 historical consecutive months or for the next five years must be above 1.25x net revenue or 1.50x gross revenue. • Junior/Second Lien: DSCR in 12 to 24 historical consecutive months or for next five years must be above 1.20x net revenue or 1.40x gross revenue. • Sub Lien: Capped at $900 million. Rate covenant • Senior: 1.25x DSCR • Junior/First Lien: 1.25x DSCR • Junior/Second Lien: 1.20x DSCR
Technical advisors	CDM Smith (Traffic and Revenue consultant)

ADS – Annual debt service. MADS – Maximum annual debt service.
FGIC – Financial Guaranty Insurance Company.
Source: Fitch Ratings

Financial Profile and Fitch Cases

Current Cases

The current financial metrics are extremely strong and Fitch expects them to remain so under both the base case and rating case. Based on the assets' performance in the first six months of fiscal 2024, Fitch projects that 2024 traffic to increase by about 2% compared to the prior fiscal year. Fitch then applies the sponsor's long-term traffic growth rate assumptions for subsequent years. Fitch assumes no inflationary toll rate increases in fiscal year 2024, followed by 2% inflationary toll rate increases each year thereafter.

Initial operations and maintenance (O&M) costs are based on preliminary and budgetary figures. Fitch assumes O&M expenses will grow at above-inflationary rates, beginning at 3.5% to reflect increasing costs of the expanding system, then tapering to 2% as system growth matures. Fitch assumes Interoperability Revenues will remain at the historical average of 8% of total toll revenues. Under these assumptions, senior and first-lien gross DSCR averages 11.7x (5.3x on a total debt basis) over the next 10 years (2024-2033). In 2028, net leverage turns negative on the senior lien and reaches 1.5x on a total debt basis.

Fitch's rating case uses the same assumptions as the base case for fiscal 2024, then applies a negative 4% traffic stress in fiscal 2025 (equal to two-thirds of the Great Recession drop). Fitch assumes toll rate growth the same as in the base case. Traffic recovers to base case levels in fiscal 2027, and Fitch uses base case projections from 2028 to 2054. Fitch applies base case O&M projections for fiscal 2024, with an additional 50 basis points (bps) increase to reflect a more stressed operating environment. O&M expenses then grow 50bps above the base case for the life of the debt. Under these assumptions, senior and first-lien gross DSCR averages 11.6x (5.2x on a total debt basis) over the next 10 years (2024-2033). In 2028, net leverage turns negative on the senior lien and reaches 1.5x on a total debt basis.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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