

**Rating Action: Moody's assigns Aa2 to Harris County Toll Road Authority, TX's Series 2022A Revenue Refunding Bonds; outlook stable**

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New York, May 26, 2022 -- Moody's Investors Service has assigned Aa2 to Harris County Toll Road Authority, TX's (HCTRA) \$204.9 million Toll Road First Lien Revenue Refunding Bonds, Series 2022A. HCTRA also has \$420.1 million of parity first lien revenue bonds rated Aa2 and \$1.639 billion of senior lien revenue bonds rated Aa1 outstanding. The outlook is stable.

**RATINGS RATIONALE**

The Aa2 rating on the first tier bonds reflects a strong financial position that draws from HCTRA's maturing system in the economically large and vibrant county centered in Houston, TX. HCTRA serves a growing and increasingly diverse area economy that is highly dependent on HCTRA's roadway network for commuting. Moody's expects debt service coverage ratios for all obligations, including tax-supported debt, to return above 3.0x by fiscal 2023. Though leverage peaked at 4.7x in fiscal 2021 with the issuance of Series 2021 bonds and lower operating revenue during the COVID-19 outbreak, leverage will decrease below 3.0x in fiscal 2023 and continue moderating.

The ratings are additionally supported by the good condition of HCTRA facilities, as assessed by an independent engineer, that provide for good operational performance and limited maintenance expenditures. Strong DSCRs and liquidity 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 annual transfers in excess of \$130 million 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. Construction risk on the largest HCTRA capital project, the \$1.45 billion Ship Channel Bridge, also weighs negatively on the rating.

The Aa1 rating on senior 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 through 2025 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 beyond replacement of the existing commercial paper program - which occurred and closed on April 22, 2022 - and the refunding or replacement of the Series 2007B bonds and related swaps (in connection with the expiration of LIBOR) unless the issuer obtains written approval of 75% of first lien bondholders. The 2022A bonds will participate in the first lien debt service reserve fund, which will be funded at the standard IRS three-prong test that is expected to provide just over 12 months of debt service.

## USE OF PROCEEDS

Proceeds of the Series 2022A first lien bonds will be used to refund existing callable senior lien bonds, fund a contribution to the first lien DSRF, and pay costs 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 807 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 March 2019 and available at <https://ratings.moodys.com/api/rmc-documents/60219>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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