MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Fort Bend (County of) TX

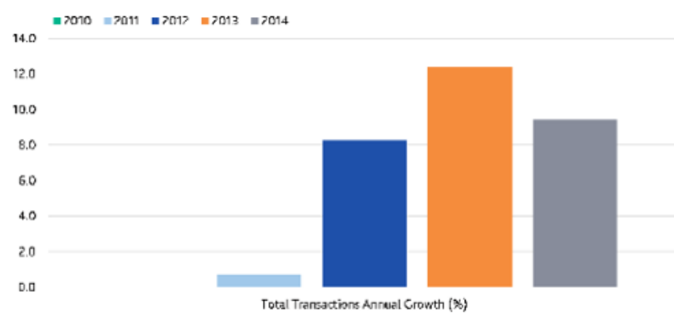
New Issue- Moody's assigns A2 to Fort Bend County's Toll Road Senior Lien Revenue Bonds, Series 2016; Stable outlook

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Fort Bend County's $69.5 million Series 2016 Senior Lien Toll Road Revenue Bonds. We affirm the A2 rating on approximately $149.235 million of outstanding parity senior lien debt. The outlook is stable.

The A2 rating is based on the sound financial metrics of the authority; strong commuter usage of the two toll roads in a sizable and growing metropolitan Houston service area; the county's ability to levy taxes to cover maintenance expenses if needed; the ability to transfer surplus funds from the authority for major roadway projects in the county, including non-toll road projects, which Moody's views as a credit weakness, though we note that the toll road has not made any such transfers in its operating history. The rating also considers the significant additional debt with this issue and the risks associated with the forecasted ramp-up of traffic and revenue on the financed Westpark Tollway Phase I extension project. Forecast assumptions appear reasonable and achievable given the service area's strong economic growth, acceptance of tolling and above average income levels in Fort Bend County.

Exhibit 1
Total Transactions Annual Growth



Source: Moody's Investors Service Municipal Financial Ratio Analysis Database

Credit Strengths

- Strong net DSCRs for senior lien bonds above 2.0 times in a stress scenario
- Toll policy includes automatic annual adjustments based on the greater of 2% or CPI for the Houston MSA
- Growing service area in affluent suburban region of the Houston MSA, with direct access to Houston's central business district and outer ring highways, including Harris County Toll Road components

Credit Challenges

- Small, but expanding system of two limited access highways serving a portion of Fort Bend County
- Excess revenues deposited to surplus fund may be used by the county at any time for major thoroughfare projects in the county; however, to-date this has not occurred
- Limited history of tolling and traffic usage patterns

Rating Outlook

The stable outlook is based on our expectation the county will achieve above-median financial metrics, including debt service coverage ratios (DSCRs) at or above currently forecasted levels, while adding additional debt for the Westpark Tollway extension and potential additional projects as needed depending on service area growth.

Factors that Could Lead to an Upgrade

- Significantly higher than forecasted growth in traffic and revenues that increase DSCRs above forecasts
- Maintenance of very strong liquidity

Factors that Could Lead to a Downgrade

- Significant traffic diversion onto competing free roadways
- Construction cost overruns or speculative system expansions that increase debt levels without corresponding traffic increases
- Significant reduction in liquidity levels for projects or due to county transfers

Key Indicators

Exhibit 2

Key Indicators

	2010	2011	2012	2013	2014
Total Traffic Transactions ('000)	21,624	21,777	23,570	26,483	28,981
Total Transactions Annual Growth (%)	NA	0.7	8	12	9
Debt Outstanding ($'000)	135,890	134,490	153,480	151,580	149,235
Debt to Operating Revenues (x)	7.7	7.4	7.9	6.9	6.3
Days Cash on Hand ('000)	3,093	2,804	4,867	5,209	4,745
Senior Lien Debt Service Coverage By Net Revenues (x)	NA	Na	51	17	18
Total Debt Service Coverage By Net Revenues (x)	2.06	1.78	2.88	1.91	2.13

Source: Moody's Investors Service Municipal Financial Ratio Analysis Database

Recent Developments

The current issue, which was noted as expected in our November 5, 2014 report, finances Phase 1 of the Westpark Tollway, a 2.628 mile, four-lane extension of the existing Westpark Tollway. Adjacent non-tolled frontage roads are being built by the county at its own cost of approximately $36.4 million. The Phase I project is fully permitted, 100% designed and construction bids are expected this week. Construction is expected to take two years with the toll road opening to traffic in February 2018. A subsequent Phase II would add another 4.2 miles; however this project is in the early planning stages and there is no plan of finance at this time. Phase II may be undertaken in five or more years if demand warrants, and is subject to financial feasibility.

Toll road traffic and revenue are generally tracking the prior forecast. Unaudited fiscal year 2015 (FYE 9/30) revenues are above budget and significantly above the prior year. Net revenues are 9.9% over budget and total revenues are nearly 13% above FY 2014. The estimated total FY 2015 DSCR is 2.30 times including the subordinate lien general obligation bonds and 8.54 times for the senior bonds.

Detailed Rating Considerations

Revenue Generating Base

The authority's two toll roads, Fort Bend Parkway and Westpark Tollway, help facilitate travel between Fort Bend County (Aa1/no outlook) and Harris County (Aaa/stable) and the City of Houston (Aa2/negative) via direct connection to the Harris County Toll Road Authority's (HCTRA Aa2/stable) system at the county line. Fort Bend County abuts Harris County on the southwest side of the Houston MSA, and as the Houston MSA has continued to grow, Fort Bend has been home to a series of successful planned communities that have led to a population increase of 65% between 2000 and 2010 and close to 21% from 2010 to 2015. Traditionally, many county residents have commuted to Harris County and Houston, though economic development within Fort Bend County has increased the amount of intra-county trips. Fort Bend County continues to be one of the fastest growing counties in Texas and in the US. As estimated by the US Census Bureau for 2013 median household income for Fort Bend County was 168% of the US and nearly 170% of Texas.

Houston has seen its total employment plateau, after several years of above-average growth, with more recent gains in low-wage hospitality. According to Moody's Economy.com, falling oil prices have caused manufacturing and construction to decline, and prices could stay low, especially with additional production expected from Iran over the coming years. However, lower oil prices have also lowered the input costs of new petrochemical plants and export facilities – over 100 projects are currently under construction or in planning stages. Home sales were down 1.2% year-over-year in the 2nd quarter of 2015, and new permits for single and multi-family homes were down 20%. Yet, with a more diverse economy than in the past, and with population growth at twice the national rate, Houston's housing market is expected to improve in the long-run.

Moody's considers financial management of Fort Bend County to be relatively strong. The county has had to manage significant growth in recent years as the Houston population continues to push westward. New housing and developments have driven the need for transportation infrastructure which has been the focus of the county for several years. Cash reserves have historically been below average but officials seem to be managing well considering the large amount of projects underway. Socioeconomic indices for the county are strong and its tax base is sizeable and growing. The economic prospects for the county in the near-term are strong

Financial Operations and Position

Transaction growth on the two county toll roads has seen strong growth in the last two fiscal years and this growth is continuing in the first two months of FY 2016 after uneven traffic growth in prior years. Transactions grew 9.4% in FY 2015 and 12.4% in FY 2014 and toll revenue is 9.1% over budget and 10.2% over forecast for the first two months of 2016.

The county implemented automatic toll increases in October 2011, with an annual adjustment factor determined by the greater of 2% or Houston MSA CPI, which we expect will contribute to continued revenue reliability in the future, provided the rate increases are implemented according to current policy.

Including the current issue, the traffic and revenue consultant's base case traffic and revenue forecast assumes average annual traffic growth of 6.3% from 2015 to 2020, including ramp-up, and 3.3% from 2020 to 2030. Revenue growth, including annual rate adjustments, is forecast at 9.6% from 2015 to 2020 and 5.4% from 2020 to 2030. Under management's base case financial model revenue growth averages 7.3% from 2015 to 2025 and does not grow after that. This scenario yields minimum DSCRs of 2.12 times for senior bonds and 1.1 times for all bonds including the subordinate general obligation debt service. A breakeven scenario for all bonds shows that all debt would be paid with no revenue growth from 2018 through the life of the bonds. A more reasonable stress scenario that cuts the annual revenue growth rate by 50% yields minimum DSCRs of 2.03 times for senior and just under 1.0 times for all bonds. All scenarios assume that the county issues the larger amount of bonds ($86 million) for the Phase I project and also include 3% annual O&M expense growth through 2025 as well as 12% violations and related revenue leakage. We note that the financial model does not include any debt or future revenues for the possible Phase II Westpark Tollway extension. We believe that the other assumptions underlying the traffic and revenue forecast are reasonable, including corridor traffic capture of 6.8% Westpark and 4% for Fort Bend; traffic ramp up of 65% in the first year; 85% in the second year; 95% in the third and 100% in the fourth year.

LIQUIDITY

At FY 2014 year end, the authority had $52.7 million of unrestricted reserves, which is equivalent to 4,745 days cash on hand, significantly above the 765 days FY 2014 median for Moody’s A-rated toll roads and the 847 for all toll roads, though we note that all of the Fort Bend’s toll road operations are outsourced which makes operating expenses particularly low as reflected in operating expense per roadway of $338 per mile versus $1,055 per mile for all rated toll roads. Moody's does note that the continued policy of reserving $10 million for subordinate bond debt service provides a good portion of this ample liquidity, and that deviations from this policy or increased transfer of surplus funds to non-revenue generating projects could place negative pressure on the rating.

Debt and Other Liabilities

The authority has $149.235 million parity senior lien revenue bonds outstanding. Additional outstanding subordinate lien revenue bonds ($115.885 million) are secured by GOLT millage of the county. Though this millage is authorized it has never been levied and the toll road enterprise has paid annual debt service.

DEBT STRUCTURE

Debt service ramps up to a level debt structure by 2020 including the Series 2016 bonds.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The financial impact of unfunded pension and OPEB obligations of this issuer are not currently a major factor in our assessment of the toll road’s credit profile.

Management and Governance

The authority was established by the county and is a component unit of county and exists in name only and has no employees that are not county employees.

The authority has a five-person board, appointed by county commissioners to concurrent 4 year terms, and is composed of local civic leaders, none of whom are transportation officials. Board members can be removed at any time by the county's elected commissioner's court. The board is responsible for planning and management of contracts and recommends actions which then must be approved by the commissioner's court.

While Moody's views this governance structure as somewhat weak, we note that a majority of the existing board has been with the authority since its inception and the commissioner's court has demonstrated a willingness to increase tolls as necessary in the past. Also we note county’s finances have been conservatively managed.

Legal Security

The bonds are secured by a first lien on gross revenues on authority managed roads. Debt service reserve fund (DSRF) is cash funded at 100% of maximum annual debt service and the rate covenant is gross revenues of at least 1.25 times annual senior lien debt service. Legal provisions are weak and include an open loop flow of funds, whereby all surplus moneys remain with the county and may be used for any lawful county transportation project.

While secured by the county's unlimited tax pledge and net toll revenues, the $115.885 million subordinate lien bonds outstanding are paid only from net toll revenues.

Use of Proceeds

Series 2016 senior lien revenue bonds finance the extension of Phase 1 of the West Park Tollway. The bonds mature from 2019 through 2045 and will have a standard lesser of three-prong test cash-funded debt service reserve fund (DSRF) at financial close.

Obligor Profile

The authority was created by the county to manage the operations and maintenance of the toll road system in the county. Each of the two toll roads are continuations of spur roads of the Harris County Toll Road Authority (HCTRA). The four-lane eight mile Fort Bend Parkway opened to traffic in August 2004. The six mile Westpark Tollway opened to traffic in August 2005.

Exhibit 3

Government Owned Toll Road Methodology Scorecard Factors

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Baa	
	b) Operating History	Baa	
	c) Competition	A	
	d) Service Area Characteristics	A	
2. Performance Trends	a) Annual Traffic (Transactions)	Baa	
	b) Traffic Profile	Aaa	
	c) Five year Traffic CAGR	Aaa	
	d) Ability and Willingness to Increase Toll Rates	Aa	
3. Financial Metrics	a) Debt Service Coverage Ratio	Aa	2.13
	b) Debt to Operating Revenue	Baa	6.29
4. Capacity, Capital Plan and Leverage	a) Capital Needs	Baa	
	b) Limitations to Growth/Operational Restrictions	A	
Notching Factors		**Notch**	
	1 - Debt Service Reserve Fund level		
	2 - Open/Closed Flow of Funds	-0.5	
	3 - Days Cash on Hand	1.0	
	4 - Other Financial, Debt and Operational Factors		
	Scorecard Indicated Rating:	**A1**	

Note: The published rating is one notch lower than the scorecard outcome because of the risk of potentially higher than expected construction costs and construction delays absent a fixed price contract, as well as ramp up risks of the Westpark Tollway extension project.

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in October 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 4

FORT BEND COUNTY TOLL ROAD AUTHORITY, TX

Issue	Rating
Senior Lien Toll Road Revenue Bonds, Series 2016	A2
Rating Type	Underlying LT
Sale Amount	$69,500,000
Expected Sale Date	01/11/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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