

# **FITCH RATES FLORIDA TURNPIKE ENTERPRISE'S REV BONDS 'AA'; OUTLOOK STABLE**

Fitch Ratings-New York-04 January 2019: Fitch Ratings has assigned a 'AA' rating to the Florida Department of Transportation's (FDOT) approximately \$224.2 million series 2019A turnpike revenue refunding bonds. The Florida Turnpike Enterprise (FTE), a division of FDOT, operates the state's turnpike system. The Rating Outlook is Stable.

## **KEY RATING DRIVERS**

The 'AA' rating reflects the turnpike system's standing as an essential network used by a broad customer base in a strong service area. The turnpike system benefits from considerable rate-making flexibility, evidenced by the legal ability to adjust toll rates above the Consumer Price Index (CPI) and the precedent of several above-inflationary toll rate increases. The rating also reflects the turnpike's substantial capital improvement program, which has supported continued expansion and maintenance of the turnpike but is currently expected to require \$1.5 billion in debt issuances through fiscal 2023, not including the Series 2019 refunding. FTE's resilient financial profile evidenced by high debt service coverage and moderate leverage metrics mitigates concern regarding future debt issuance and remains commensurate with its 'AA' rating.

**Strategically Important Turnpike System - Revenue Risk (Volume): Stronger**  
FTE's toll roads comprise a critical, mature transportation system underpinned by a large commuter base and limited competition. FTE's expansion of the system, coupled with sustained healthy demand, has resulted in resiliency and continued growth of the traffic base, evidenced by FTE's lack of notable traffic declines since 1990 with the exception of the last recession. The turnpike has also benefited from minimal elasticity of demand in response to rate increases, which Fitch expects to continue given the asset's essentiality combined with competitive toll rates.

**Strong Rate-Making Flexibility - Revenue Risk (Price): Stronger**  
FTE benefits from considerable flexibility to increase toll rates and a legal framework to implement scheduled rate increases that track inflation. FTE's toll rates are indexed to the CPI, with the ability to increase electronic toll rates once every year but no less than every five years and cash rates every five years. Toll adjustments above the CPI index are permitted as needed to comply with bond documents and covenants. FTE has implemented above-inflationary rate increases occasionally in the past as needed, albeit most historical rate increases have tracked inflation. Political opposition to tolling is not considered a material concern.

**Manageable Work Program - Infrastructure Development/Renewal: Stronger**  
The turnpike's five-year proposed work program totals roughly \$5.4 billion, about a third of which is expected to be supported by additional borrowing, not including the Series 2019 refunding. The plan focuses on increasing capacity and access to the system. Several lane-widening projects that are expected to be completed over the next two years will continue to enhance the turnpike's capacity. The turnpike system is in good condition overall, and its asset condition monitoring regime is robust.

**Conservative Debt Portfolio - Debt Structure: Stronger**  
The turnpike's debt structure is fairly conservative, featuring all senior, fully amortizing fixed-rate debt. Outstanding debt is limited by a bond cap of \$10 billion. Outstanding bonded debt remains below 30% of the limit and total debt pro forma for new issuances is expected to remain comfortably within the limit, peaking at approximately 35% of capacity in 2023. FTE's current debt service profile including the 2019A bonds declines through final maturity in 2048. Including

future debt issuances, debt service will reach its maximum in 2025 and will steadily decline through 2052.

### Financial Profile

FTE benefits from a strong financial profile, which is expected to remain consistent with the current rating level even as sizable capital program-related debt issuances come on line over the next five years. FTE's fiscal 2018 debt service coverage ratio (DSCR) was robust at 3.3x and is expected to remain strong at above 2.5x. Leverage was low at a net debt-to-cash-flow available for debt service (CFADS) of 1.7x in fiscal 2018 and is expected to peak at 3.0x in Fitch's rating case.

### PEER GROUP

Maryland Transportation Authority (MDTA; AA/Stable Outlook) and Pennsylvania Turnpike Commission (PTC; A+ senior/A- subordinate/Stable Outlook) are among FTE's closest peers. Each operates a strong turnpike system with both urban and rural segments and has considerable pricing flexibility. FTE and MDTA feature comparable DSCR and leverage profiles, as well as similar passenger toll rates. Continued positive traffic trends, high financial flexibility and consistently high debt service coverage resulted in a recent rating upgrade of MDTA, bringing its rating in line with FTE's rating. Conversely, PTC's higher debt burden results in higher leverage on both liens, explaining PTC's lower ratings.

### RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Erosion of DSCR below 2.3x for a sustained period under Fitch's rating case due to lower than anticipated revenues from decreased transactions or minimal toll increases would put pressure on the rating.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--The rating is unlikely to rise due to future investment and political risks inherent to toll systems.

### TRANSACTION SUMMARY

FDOT expects to issue approximately \$224.2 million of series 2019A senior lien revenue refunding bonds. Proceeds will be used to refund outstanding State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2009B Build America Bonds (Federally Taxable-Issuer Subsidy and cover the costs of issuance. The Series 2019A bonds will bear a tax-exempt fixed rate of interest with a final maturity of July 1, 2039. The debt service profile will be sculpted to maintain level annual debt service with amortization beginning in 2020.

### CREDIT UPDATE

#### Performance Update

FTE's traffic and revenue performance continued to exceed Fitch's expectations in fiscal 2017. Strong performance was driven by healthy economic growth, continued ramp-up of the Western Beltway Part C and the I-4 Connector, increases in tourism activity and inflation-linked toll rate increases. Fiscal 2018 traffic performance has continued on its upward trajectory, up 3.7% over the year prior. Toll revenues have rebounded from revenue service being suspended for 15 days in September due to Hurricane Irma, and are up 0.9% in fiscal 2018. Toll revenue has grown at a five-year CAGR of 6.1% from 2013 to 2018; however, 5%-10% growth rates are not considered sustainable and will likely temper to the 1%-3% range after fiscal 2018, as considered in Fitch's cases.

Operating expenses increased by 8.1% in fiscal 2018. The increase was driven by nonrecurring charges of non-capital start-up costs for data processing systems and new transaction fees charged by interoperable partners. Operating expenses increased 8.2% to \$208.2 million in fiscal 2017, slightly higher than Fitch's expectation. The increase was primarily due to growth in system toll transactions.

For more information on FTE, please see Fitch's press release "Fitch Affirms Florida Turnpike Enterprise's Rev Bonds at 'AA'; Outlook Stable" at [www.fitchratings.com](http://www.fitchratings.com).

#### Asset Description

The turnpike system operates as an enterprise within FDOT. Its facilities include the 320-mile Mainline, segments of which were operational in the 1950s, the Sawgrass, Seminole and Veteran's expressways, the Southern Connector Extension, the Polk and Suncoast parkways, Western Beltway, Part C, and the I-4 Connector.

#### SECURITY

Turnpike revenue bonds are secured by a first lien on the net revenues of the turnpike system.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

Rating Criteria for Infrastructure and Project Finance - Effective from 24 August 2017 to 27 July 2018 (pub. 24 Aug 2017)

<https://www.fitchratings.com/site/re/902689>

Toll Roads, Bridges and Tunnels Rating Criteria — Effective Feb. 22, 2018–July 30, 2018 (pub. 22 Feb 2018)

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