

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

Fitch Ratings-New York-21 September 2016: Fitch Ratings has assigned a 'AA' to the Florida Department of Transportation's (FDOT) \$135 million revenue refunding bonds, series 2016C. The Rating Outlook is Stable.

The 'AA' rating reflects the Florida Turnpike Enterprise's (FTE or the turnpike) system's standing as an essential network used by a broad customer base in a strong service area. FTE's turnpike system provides considerable rate making flexibility and has produced a financial profile with strong debt service coverage and moderate leverage for an asset of its nature. The rating also incorporates the turnpike's capital improvement program (CIP), which, while substantial, has remained on time and on budget. These strengths are somewhat tempered by the sizable debt issuance planned to support the CIP. However, leverage is expected to remain at a level commensurate with the rating category. FTE's financial metrics in fiscal 2015 were very strong, with coverage increasing to 2.86x, while leverage decreased to 2.5x, both positive trends. Expected fiscal 2016 coverage is 2.9x.

### **KEY RATING DRIVERS**

**Strategically Import Turnpike System (Revenue Risk - Volume: Stronger):** FTE's toll roads constitute a critical transportation system with a mature traffic profile and established demand. Toll transactions have grown steadily since 1990, with the exception of marginal decreases in fiscal 2008 and 2009 due to the recession, as a result of increased demand as well as additional lanes and roadways. Transaction growth has been strong in recent years, as evidenced by a five-year compound annual growth rate (CAGR) of 3.7%, and is expected to continue in the future. The network benefits from a strong commuter base that accounts for approximately 95% of total transactions.

**Strong Rate-Making Flexibility (Revenue Risk - Price: Stronger):** Considerable economic flexibility exists to increase toll rates and legal framework exists in order to implement scheduled rate increases that track inflation. FTE is bound by statute to index toll rates to the Consumer Price Index (CPI). Per the statute, CPI increases will be applied to electronic payers no more than annually and no less than every five years, while cash rates will be increased every five years, rounded to the nearest quarter. Additional toll adjustments above the CPI index are permitted, as needed to comply with bond documents and covenants. The first CPI increase was implemented on June 24, 2012 and annual increases have followed on July 1 of 2013, 2014 and 2015.

**Manageable Work Program (Infrastructure Development/Renewal: Stronger):** The turnpike's fiscal 2016 - 2021 (June 30 yearend) proposed work program totals \$6.1 billion, which assumes approximately \$1.4 billion, or 23%, of the program will be supported by additional borrowings during this period. While the program is sizeable, FTE has a strong track record of delivering projects on time and on budget. Furthermore, its asset condition monitoring regime is considered 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; however, currently outstanding bonded debt is only 29% of the limit and is expected to rise to approximately 39% by fiscal year-end 2026, still well within the limit.

Low Leverage and Solid Financial Margins: Leverage was a very low 2.5x at fiscal year-end 2015 (2.7x including amounts due from FTE to FDOT). While FTE anticipates sizable debt issuances to support its capital program in the coming years, leverage should remain manageable and satisfactory for the rating level. Debt service coverage ratio (DSCR) continues to strengthen, reaching 2.86x in fiscal 2015. Fitch expects DSCR to remain above 2.25x for the foreseeable future, while including additional debt issuances, supported by the system's indexing of electronic toll rates to increases in CPI.

Peer Group: Maryland Transportation Authority (MdTA) and Pennsylvania Turnpike Commission (PTC) are among FTE's closest peers, each operating strong turnpike systems comprising both urban and rural segments and having considerable pricing flexibility. While FTE and MdTA feature comparable DSCR and leverage profiles, MdTA faces some political uncertainty in regards to its toll rate structure and future capital needs, which supports the one notch differential. PTC's higher debt burden and resulting weaker metric profile is the primary cause of its lower rating of 'A+' and 'A-' on first and second liens respectively.

#### RATING SENSITIVITIES

Negative - Erosion of DSCR below 2.25x for a sustained period due to lower than anticipated revenues from decreased transactions or minimal toll increases would put pressure on the rating.

Negative - A substantial increase in additional debt, bringing leverage above 5.0x, as well as an inability to actively control operating expenses along with costs related to its work program would reflect a weakened credit profile.

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

#### TRANSACTION SUMMARY

The Florida Turnpike Enterprise expects to issue \$135 million of turnpike revenue refunding bonds series 2016C to refund a portion of the outstanding State of Florida, Department of Transportation Turnpike Revenue Bonds series 2008A, and to pay costs of issuance. Under current market conditions, the 2016C bonds are estimated to produce net present value savings of around 3%.

For more information related to the credit please see 'Fitch Upgrades Florida Turnpike Enterprise's Rev Bonds to 'AA'; Outlook Stable' dated August 24, 2016 available at [www.fitchratings.com](http://www.fitchratings.com)

#### SECURITY

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

Date of Relevant Committee: August 24, 2016

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#### Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

<https://www.fitchratings.com/site/re/882594>

Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016)

<https://www.fitchratings.com/site/re/886038>

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