FITCH AFFIRMS FLORIDA TURNPIKE ENTERPRISE'S REV BONDS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-22 June 2018: Fitch Ratings has affirmed the Florida Department of Transportation's (FDOT) $2.6 billion outstanding turnpike revenue bonds at 'AA'. 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 $1.4 billion in debt issuances through fiscal 2022. 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 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 $4.0 billion, about 35% of which is expected to be supported by additional borrowing. 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 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. 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 33% of capacity in 2022. FTE's current debt service profile declines through final maturity in 2045. Including new debt issuances, debt service will reach its maximum in 2024 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 2017 debt service coverage ratio (DSCR) was robust at 3.3x and is expected to remain strong at a 10-year rating case average of 2.9x. Leverage was low at a net debt-to-cash-flow available for debt service (CFADS) of 1.8x in fiscal 2017 and is expected to remain below 3.0x in Fitch's rating case.

PEER GROUP
Maryland Transportation Authority (MDTA, rated 'AA-'/Positive Outlook) and Pennsylvania Turnpike Commission (PTC, rated '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. While there is currently a one-notch differential between MDTA and FTE, continued positive traffic trends and additional certainty on tolling policies could result in a 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 due to lower than anticipated revenues from decreased transactions or minimal toll increases would put pressure on the rating.
--A substantial increase in additional debt and an inability to actively control operating, maintenance or capital expenses, which brings stabilized leverage above 5.0x, would reflect a weakened credit profile.

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.

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 year to date traffic performance has continued on its upward trajectory, though toll revenues are down by 2.1% through March, primarily due to revenue service being suspended for 15 days in September due to Hurricane Irma. Toll revenue has grown at a five-year CAGR of 10.6% from 2012 to 2017; 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 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. However, FTE's large net margin and growing top line, has minimized the impact of increasing operating expenses on the turnpike's overall financial profile, evidenced by healthy continued net revenue growth. DSCR was slightly higher than projections as a result of growing net revenues and a decline in debt service over the past year from refundings. Leverage, likewise, was lower than expected, at 1.75 for fiscal 2017. However, leverage is expected to increase with FTE's future issuances to partially fund the capital plan.

The turnpike's Capital Improvement Plan over the next five years (2018-2022) allocates approximately $4 billion on capital projects, which is not vastly different from last year's sixyear capital plan of approximately $4.5 billion. Roughly $1.4 billion in debt is expected to be issued over the next five years to support FTE's capital plan, equating to about 35% of total capital plan funding. Future debt issuances are not currently considered a material concern, as projected leverage metrics remain under 3.0x due to net revenue outperformance, consistent with the current rating. Nevertheless, additional debt that is not offset by commensurate net revenue growth, driving stabilized leverage above 5.0x, could cause credit concern.

Fitch Cases

Fitch's base and rating cases assume a 0.5% increase in toll revenues and a 5.7% increase in operating expenses in fiscal 2018, reflecting conservative expectations given YTD performance. From fiscal 2018 through fiscal 2027, base case revenues and expenses grow by roughly 2% and 2.5% each year. Under the rating case, toll revenues experience a revenue shock in fiscal 2020, declining by 5%, followed by a recovery of 2% growth per annum thereafter. Rating case expenses grow by 3% from fiscal 2019 through 2027, 50 bps higher than the base case. Pro forma debt is included in both cases.

FTE's financial profile remains strong in both cases, evidenced by robust base and rating case 10-year average DSCRs of 3.2x and 2.9x and low year-five leverage of 2.3x and 2.6x, respectively. FTE's negative toll revenue breakeven and maximum annual debt service DSCR of 2.8x also demonstrate FTE's lack of dependence on growth to meet obligations. The turnpike system's robust financial profile, lack of dependence on growth and strong franchise strength render FTE's credit commensurate with an 'AA' rating.

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 and Western Beltway, Part C.

SECURITY

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

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Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)
https://www.fitchratings.com/site/re/902689
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 22 Feb 2018)
https://www.fitchratings.com/site/re/10021263