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Ratings

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Summary:

Florida Turnpike Enterprise; Toll Roads Bridges

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Credit Profile		
US$138.240 mil tpk rev rfdg bnds (Florida Tpk Enterprise) ser 2017A due 07/01/2030		
Long Term Rating	AA/Stable	New
Florida		
Florida Tpk Enterprise, Florida		
Florida (Florida Turnpike Enterprise)		
Long Term Rating	AA/Stable	Affirmed
Florida (Florida Turnpike Enterprise)		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Florida's pro forma $138.2 million series 2017A turnpike revenue refunding bonds, issued for the Florida Turnpike Enterprise (FTE). At the same time, S&P Global Ratings affirmed its 'AA' long-term and underlying ratings on FTE's turnpike revenue bonds outstanding. The outlook is stable.

The rating reflects our view of FTE's following credit strengths:

- Very strong competitive position as a large, diverse, and mature system for the state that has exhibited generally good or stable traffic growth;
- Very strong total debt service coverage (DSC) that we expect to continue, despite additional borrowing plans, due to the system's high activity levels and annual toll indexing; and
- Low toll cost of 7 cents per mile for two-axle vehicles paying tolls electronically.

Somewhat offsetting these strengths is FTE's plan to issue about $1.5 billion of additional debt through fiscal 2022 (year ending June 30) to fund capital improvements, which could stress DSC levels.

Bond proceeds will refund a portion of the Florida Department of Transportation's (FDOT) series 2008A turnpike revenue bonds outstanding and pay costs of issuance.

A pledge of the system's net revenues after operation and maintenance (O&M) expenses secures the bonds. The FDOT, however, has covenanted to pay the FTE's O&M expenses from the State Transportation Trust Fund (STTF), with the turnpike reimbursing the FDOT from funds in the enterprise's general fund after paying debt service. In the event of a shortfall, the FTE must take actions (including deferring projects and increasing tolls) to increase available revenues. If these actions impair the bonds' security or the system's integrity, the reimbursement obligation would become a debt of the turnpike system to the STTF, payable from the FTE's general reserve fund.

In addition, statutory safeguards require both adherence to specific environmental and economic feasibility tests before building expansion projects, and compliance with additional bonds tests (1.20x) and rate covenant (1.20x).

The system consists of several components. The principal one, the 320-mile Mainline (which represented about 70% of fiscal 2017 gross toll revenues), runs north-south from Interstate 75 at Wildwood in Sumter County to Florida City in southern Miami-Dade County, with an east-west segment intersecting at Orlando in Orange County. The Mainline consists of five different subcomponents: the Homestead Extension of Florida's Turnpike, the Southern Coin System, the Ticket System, the Northern Coin System, and the Beachline West Expressway. The system also includes:

- The 18-mile Seminole Expressway in Seminole County;
- The 15-mile Veterans Expressway in Hillsborough County;
- The six-mile Southern Connector Extension in Orange and Osceola counties;
- The 25-mile Polk Parkway in Polk County;
- the 42-mile Suncoast Parkway in Hillsborough, Pasco, and Hernando counties;
- The 23-mile Sawgrass Expressway in Broward County;
- The 11-mile Western Beltway (Part C) in Orange and Osceola counties;
- The one-mile Interstate 4 (I-4) Connector in Hillsborough County; and
- The 22-mile Beachline East Expressway in Orange and Brevard counties that the system acquired July 1, 2014.

We believe bondholders benefit from the large and diverse system, which serves 17 of Florida's 67 counties, representing more than 61% of the state's population. Large portions of the system function as a congestion reliever. However, the Beachline West, Western Beltway (Part C), and Southern Connector Extension serve more tourist and recreational areas, providing access to Disney World and other area attractions. For fiscal 2017, system toll revenues and transactions totaled approximately $1.0 billion and 872.9 million, respectively. This increase is mostly attributable to the system-wide traffic growth due to a stronger economy and record number of Florida visitors.

For fiscal 2016, passenger cars accounted for about 96% of total system traffic and 85% of toll revenues; and electronic tolls accounted for about 81% of toll revenue. Turnpike system transactions increased by an annual average of 9.5% from fiscal years 1999 through 2007, which we consider strong. However, transactions fell 3.4% and 5.5% in fiscal 2008 and fiscal 2009, respectively. With improving economic conditions, total transactions have increased annually since 2010, except for a slight decline (0.2%) in fiscal 2013. For fiscal years 2015-2017, total transactions increased 11.2%, 8.6%, and 4.7%, respectively, due to a system-wide growth in transactions, the I-4 Connector (opened January 2014), and the Beachline acquisition.

Toll revenues fell 4.3% and 7.1% in fiscal years 2008 and 2009, respectively, in concert with the fall in traffic, but have increased annually since 2010. For fiscal years 2015-2017, toll revenues increased 8.7%, 10.4%, 5.5%, respectively, due to toll transaction growth, and annual indexing of toll rates that took effect in fiscal 2013, as well as recent acquisitions that have expanded the system. Because of a negligible change in CPI there was no indexing of toll rates on July 1, 2016.

We consider FTE's liquidity position very strong. However, it could fall to levels that we consider strong due to funding capital improvement plan (CIP) project costs. From fiscal years 2014 through 2017, unrestricted cash year-end balances ranged from $858 million to $998 million, providing 1,095 to 1,417 days' operating expenses before depreciation on hand. We attribute the increases, which we consider strong, to higher operating revenues (from growth in customer transactions and indexing of toll rates), reduced operating expenses (mostly because of reduced renewal or replacement outlays), an increase in investment earnings, and reduced interest costs (due to bond refunding transactions). FTE's financial projections show its cash reserves falling because of funding a portion of its CIP project costs. We understand management will not allow the system's cash position to drop below $300 million, a level we consider strong.

Because of annual rate increases and strong growth in system transactions following the commencement of toll collections for the I-4 connector and the Beachline acquisition, the FTE's total DSC (S&P Global Ratings-calculated), based on audited results, has been consistently very strong, in our view, exceeding 2x between fiscal years 2013-2017. It exceeded the system's debt management guideline of maintaining 1.5x DSC based on net revenues. Total DSC (S&P Global Ratings-calculated) at fiscal year-end 2017 was 2.74x. We expect FTE's total DSC to remain very strong, at near or above 2.5x. We base our DSC calculations for fiscal years 2013-2017 on generally acceptable accounting principles (GAAP)-reported figures, excluding the Build America Bonds (BAB) subsidy. Because the system uses the modified approach to reporting depreciation of infrastructure assets, it includes renewals and replacement costs as a part of its operating expenses. Excluding these, total DSC for fiscal years 2013-2017 has been no lower than 2.4x, and about 3x based on fiscal 2018 forecast figures.

The FTE has about $2.7 billion in total debt outstanding ($2.6 billion is senior debt), which is a debt burden that we consider manageable for a system of this size. The FTE's current year and tentative five-year working plan (fiscal years 2018 through 2022), including $5.8 billion of capital project costs and requiring $1.5 billion of additional debt issues. Total DSC (S&P Global Ratings-calculated), based on forecasted fiscal 2018-2022 figures from the FTE's corresponding tentative finance plan, and excluding renewal and replacement costs as operating expenses, is no lower than about 3x. These coverage values also exclude annual BAB subsidy payments of $5.5 million. The plan assumes annual index tolling (adjusting for CPI each year) and debt issues, which together total about $1.5 billion. We expect management will defer capital projects or increase tolls beyond indexing to maintain the system's strong, in our view, financial flexibility should revenue and transaction levels trend materially below forecast. The plan assumes annual traffic transactions will increase 4.7% in fiscal 2018, followed by 2.5%-2.9% annual growth in fiscal years 2019 through 2021. We believe this is achievable, with actual traffic increasing 4.7% in fiscal 2017.

The FTE's strong financial profile is partially due to increasing rates. More specifically, in each of July 2013, 2014, and 2015 the system increased SunPass and toll-by-plate rates 2.1%, 1.5%, and 1.6%, respectively, reflecting inflationary increases based on CPI. Before this, in June 2012, the system increased cash toll and toll-by-plate rates 11.7%, reflecting the change in CPI in the previous five years. The toll hike relates to a state law enacted in 2007 that directs the turnpike and other FDOT-owned toll facilities to index toll rates on existing facilities to inflation. The FTE's tolling index plan includes increasing SunPass and toll-by-plate rates by CPI each year, while increasing cash tolls every five. We expect this plan will partially allow the turnpike to maintain what we view as very strong DSC. The cost per mile on the mainline for two-axle vehicles is approximately 7 cents for SunPass customers. Due to an insignificant change in the previous year's CPI, toll rates were not adjusted on July 1, 2016,. The next scheduled increase to cash toll rates, which are indexed every five years to CPI, occurred on Oct. 29, 2017.

Hurricane Irma made landfall in Florida Sept. 10, 2017. Ahead of the storm, the governor declared a state of emergency on Sept. 4. FTE remained open to the public both before and after the storm to facilitate an orderly evacuation from and subsequent return to affected areas. Toll collection was suspended as of Sept. 5, in accordance with the evacuation efforts, and was reinstated Sept. 21.

The system's revenue was minimally affected by the toll suspension, the cost of which was estimated at $44.6 million, representing approximately 4% of annual system revenues. Preliminary estimates indicate that fiscal 2018 toll revenues will likely be comparable with fiscal 2017 due to: continued growth in traffic because of favorable economic conditions in Florida; and the statutorily required toll-rate adjustment scheduled to take effect on Oct. 29, 2017 (1.3% for SunPass and toll-by-plate and 6.6% for cash users). Management is not anticipating any significant effect beyond the revenue loss and we do not expect any material effect on liquidity or DSC.

Outlook

The stable outlook reflects our expectation that management will adjust rates and capital spending to ensure very strong total DSC and a strong liquidity position during our two-year outlook horizon.

Upside scenario

Although unlikely, we could raise the rating in the next two years if FTE's total DSC significantly improves, liquidity remains very strong, and we believe that both are sustainable, despite the turnpike's borrowing plans.

Downside scenario

We could lower the ratings over the outlook period if total DSC materially erodes or if the system's liquidity position falls to levels lower than we expect.

Ratings Detail (As Of November 9, 2017)		
Florida		
Florida Tpk Enterprise, Florida		
Florida (Florida Tpk Enterprise)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.