



RATING ACTION COMMENTARY

Fitch Rates Florida Turnpike Enterprise's Rev Bonds 'AA'; Outlook Stable

Fri 09 Jul, 2021 - 2:46 PM ET

Fitch Ratings - New York - 09 Jul 2021: Fitch Ratings has assigned a 'AA' rating to the Florida Department of Transportation's (FDOT) approximately \$230 million in Series 2021B Revenue Bonds. The Florida Turnpike Enterprise (FTE), a division of FDOT, operates the state's turnpike system. The Rating Outlook is Stable.

RATING RATIONALE

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 \$2.5 billion in debt issuances through fiscal 2026. FTE's resilient financial profile evidenced by high debt service coverage and moderate leverage metrics mitigates concern regarding the coronavirus pandemic and future debt issuance, and remains commensurate with its 'AA' rating.

KEY RATING DRIVERS

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 and the coronavirus pandemic. 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 work program (fiscal years 2022-2026) totals approximately \$7.4 billion of projects and approximately \$2.5 billion of planned bond issuances through fiscal year 2026. 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 40% of capacity in 2026 in all Fitch's cases. FTE's current debt service profile including the 2021A bonds declines from 2021 through final maturity in 2050. Including Fitch estimated future debt

issuances, debt service will reach its maximum in 2026 and will steadily decline through 2055.

Financial Profile

FTE benefits from a strong financial profile, which is expected to remain consistent with the current rating level even despite the coronavirus pandemic and as sizable capital program-related debt issuances come on line over the next five years. FTE's fiscal 2020 debt service coverage ratio (DSCR) was robust at 3.0x and is expected to remain strong at a 10-year average of 2.6x in Fitch's conservative coronavirus rating case. Leverage was low at a net debt-to-cash-flow available for debt service (CFADS) of 2.0x in fiscal 2020 and is expected to peak at 2.9x in Fitch's coronavirus rating case.

PEER GROUP

Maryland Transportation Authority (MDTA; AA/Stable) and Pennsylvania Turnpike Commission (PTC; A+ senior/A- subordinate/Stable) 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

Factors that could, individually or collectively, lead to positive rating action/upgrade:

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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

TRANSACTION SUMMARY

FDOT is issuing approximately \$230 million in Series 2021B Revenue Bonds. Proceeds of the bonds will be used to finance a portion of the 2021 Turnpike Project, to fund a reserve account, and to pay costs of issuance. The bonds will be fixed rate and tax-exempt with a final maturity of July 1, 2051. The 2021B bonds will be structured with level annual debt service with amortization beginning in 2022.

CREDIT UPDATE

Fiscal 2020 toll revenues fell by 9.1% due the impact of the coronavirus pandemic, with total revenues falling by 7.6%. Growth in toll administrative charges over fiscal 2019 helped offset the total revenue decline, due to a \$19.0 million decrease in administrative fee revenue in fiscal 2019 due to a temporary suspension of toll administrative charges in connection with the transition to a new toll management system. The turnpike has seen a five-year traffic CAGR of 2.3% from 2015 to 2020, due to the strong growth in recent years prior to the coronavirus pandemic. Year to date 2021 traffic (through April) is running ahead of Fitch's previous expectations, with 10-month fiscal year to date toll revenues down by 5.5% (approximately 9.3% over 2019). Traffic is down 6.4% over 2020 and down 9.9% over 2019.

Operating and Maintenance expenses increased by 1.9% in fiscal 2020. FTE's large net margin and strong historical revenue growth, however, has minimized the impact of increasing operating expenses on the turnpike's overall financial profile, evidenced by a five-year net revenue CAGR of 1.0%. DSCR was in below projections, though came in strong despite the coronavirus pandemic at 3.0x. Leverage is expected to continue to increase with FTE's 2020B and future issuances.

The turnpike's updated Capital Improvement Plan (2022-2026) totals approximately \$7.4 billion, with roughly \$2.5 billion in debt expected to be issued over the next five years to support FTE's capital plan. The plan focuses mostly on maintenance of the road as well as some expansionary projects. Projects to be funded with the proceeds of these planned debt issuances include widening various parts of the System; extensions of various parts of the system, and ongoing improvements. The proceeds will also provide for continued funding for widening SR 821, and the Homestead Extension of Florida's Turnpike in Miami-Dade County. These expansion projects will add additional miles and revenues to the existing Turnpike System.

FINANCIAL ANALYSIS

Fitch has updated its coronavirus rating case and severe sensitivity case assumptions to reflect new recovery projections based on the current operating environment. Fitch's coronavirus rating case reflects a decline of nearly 19% in fiscal 2021 over fiscal 2019, followed by recovery in fiscal 2023. Thereafter, revenues grow at approximately 1.5% per year. Under this case, coverage averages 2.6x over the next 10 years, reaching a minimum of 2.3x in fiscal 2026. Leverage spikes initially in fiscal 2021 as a result of the coronavirus pandemic and remains moderate due to projected new issuances, reaching 3.9x by fiscal 2025.

Fitch's coronavirus severe case implements harsher declines in fiscal 2021, followed by a slower return to recovery in fiscal 2025. Thereafter, revenues grow at approximately 1.5% per year. Under this case, coverage averages 2.3x over the next 10 years, and reaches a minimum of 2.1x fiscal 2021. Leverage remains moderate, spiking initially in fiscal 2021 as a result of the coronavirus pandemic, and reaching 4.0x in fiscal 2025. In the event of harsh declines in fiscal 2021 and limited recovery thereafter that aligns with the Fitch Severe Stress Case, negative rating action may be warranted.

SECURITY

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

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, the I-4 Connector, Beachline East, and the First Coast Expressway.

DATE OF RELEVANT COMMITTEE

03 December 2020

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
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ENTITY/DEBT	RATING	PRIOR
Florida Department of Transportation (FL) [Turnpike]		
● Florida Department of Transportation (FL) /Toll Revenues/1 LT	LT	AA Rating Outlook Stable Affirmed
		AA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Infrastructure and Project Finance Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Toll Roads, Bridges and Tunnels Rating Criteria \(pub. 26 Jun 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.1.2 (1)

ADDITIONAL DISCLOSURES

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Florida Department of Transportation (FL)

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Industrials and Transportation US Public Finance Infrastructure and Project Finance

North America United States
