

Rating Action: Moody's assigns Aa2 to Florida Department of Transportation's Turnpike Revenue Bonds, Series 2021B; outlook stable

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New York, July 08, 2021 -- Moody's Investors Service, ("Moody's") has assigned a Aa2 rating to the Florida Department of Transportation's (FDOT) \$230 million Turnpike Revenue Bonds, Series 2021B. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating reflects the strategically vital role the turnpike system plays in Florida's economy as the turnpike system is a well-established multi-asset, statewide system that has a long history of effective tolling operations with a prudent approach to financial and capital management. The rating is also supported by sustained above-average financial metrics that we expect to continue even as the \$7.4 billion large capital improvement plan (CIP) is implemented through FY 2026. We expect forecast toll revenue growth and annual debt amortization to balance the \$2.5 billion of new debt forecast to be issued to support the CIP. Nearly two-thirds of the capital projects are widenings and expansions that are revenue additive over time. In addition, the turnpike system also has a declining debt service schedule that provides room to layer in new debt without materially increasing near-term debt service costs. The rating further incorporates the turnpike system's demonstrated strong relationship with its owner FDOT and the state through centralized debt and financial oversight, FDOT's covenant to pay the turnpike's annual operating and maintenance (O&M) expenses on a reimbursable basis since 1997, and the state legislated toll rate regime.

Strong liquidity and a best in class toll rate raising regime supported by state legislated inflation-indexed toll rate increases since FY 2013, have helped absorb COVID-19 related revenue losses. Monthly traffic levels modestly exceeded 2019 levels in May 2021 for the first time since February 2020, before the initial COVID-19 outbreak in the US. Monthly toll revenues have also recovered well with May 2021 toll revenues at about 3% below 2019 levels and April 2021 toll revenues were about 1% below 2019 levels. We expect traffic and revenue to continue to improve moving forward. The turnpike system's traffic consultant conservatively estimates a return to fiscal 2019 traffic and revenue levels by fiscal 2024, but we believe a quicker recovery is likely to occur given historical out performance of these conservative forecasts coupled with the rebound in demand for services that is boosting passenger traffic in recent months as the vaccines have been more widely distributed.

RATING OUTLOOK

The stable outlook reflects Moody's view that the turnpike system's traffic and revenue will continue to grow over time and in step with its forecast new debt plans to ensure strong financial metrics are sustained.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

-Traffic and revenue growth that produces sustained net revenue DSCRs above 3.0x and debt to operating revenues below 2.0x

-Successful delivery of the CIP with planned new debt while maintaining strong financial metrics

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

-Declines in traffic and revenue combined with additional leverage that reduces total net DSCRs below 2.0x

-Liquidity levels below 400 days cash on hand

-Delays in or failure to implement timely toll increases as planned and statutorily required

LEGAL SECURITY

The revenue bonds have a senior lien on the net revenues of the state's multi-component turnpike system and the debt service reserve account (DSRA) balances. The turnpike system's DSRF is currently required to be

funded at the lesser of 125% of average annual debt service, maximum annual debt service, or 10% of original bond principal. The turnpike system has cash-funded the DSRF requirement equal to the 125% of average annual debt service given several of its surety providers are rated below investment grade, but a total of \$190.9 million in sureties remain. However, this may change over time because of a new covenant stating that upon the receipt of consent from the bond holders of more than 50% in principal amount of all outstanding bonds, the turnpike system would have the option to eliminate the DSRF with respect to those bondholders who have consented to the elimination of the reserve. We would see this as a weakening of the credit, though we note that the turnpike system has a long history of maintaining high levels of liquidity, as well as state support of O&M expenses.

The rate covenant and additional bonds test is 1.2x annual senior lien debt service and 1.0x for all other payments required under the resolution. FDOT covenanted on August 21, 1997, to pay all costs of O&M of the turnpike system from the State Transportation Trust Fund (STTF), in effect making 100% of the turnpike system gross revenues available first for debt service. The O&M costs paid from the STTF are to be reimbursed from the turnpike system general reserve fund only after the provision has been made for payment of debt service and other amounts required for the outstanding turnpike revenue bonds. The STTF is funded with transportation related taxes, fees, fines, surcharges including motor fuel and license taxes, and federal aid (15% reserved for public transportation projects).

According to the Florida Turnpike Enterprise Law, new turnpike expansion projects must pass a statutory test for economic feasibility: Project estimated net revenues must pay 50% of project debt service on bonds by the end of the 12th year since the project opened and 100% by the 30th year.

USE OF PROCEEDS

Bond proceeds will fund a portion of the CIP plan.

PROFILE

The turnpike system is a large, multi-asset toll system that traverses the most populous areas of the state and consists of several components totaling about 500 miles, with new miles consistently under construction and added to the system annually. The Florida Turnpike Enterprise operates the turnpike system for FDOT and all debt issued must be approved by the Governing Board of the Division of Bond Finance before being issued.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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