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Summary:

Florida Florida Turnpike Enterprise; Toll Roads Bridges

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Table Of Contents

Rating Action

Stable Outlook

Related Research

Summary:

Florida

Florida Turnpike Enterprise; Toll Roads Bridges

Credit Profile

US\$268.345 mil dept of transp tpk rev bnds (State of Florida) ser 2021C due 07/01/2051

Long Term Rating

AA/Stable

New

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Florida's series proposed \$268.345 million 2021C turnpike revenue bonds, issued for the Florida Turnpike Enterprise (FTE). The outlook is stable. The series 2021C bond proceeds will be used to fund certain legislatively approved turnpike projects.

A pledge of the system's net revenues after operation and maintenance expenses secures the bonds. Unlike previous parity issuances, the bonds will not benefit from debt service reserve (DSR). As adopted in the 48th supplemental resolution (December 2018), on consent of 50% of holders of principal outstanding, FTE may issue parity bonds without a DSR or reduce the DSR requirement to zero for certain outstanding bonds (series 2018A-2021B). It is estimated that, following the sale of the series 2021C, bondholders of approximately 50% of bonds outstanding will have consented to the amendment. We understand existing DSR subaccounts will remain in place for previously issued bonds, though FTE may remove them in the future. We do not believe the adoption of the amendment will have a substantial credit impact on the turnpike system if coverage and liquidity remain relatively high. However, to the extent that these metrics weaken, the lack of a DSR could cause downward rating pressure.

Following the issuance of the series 2021C bonds, FTE expects to have approximately \$3.14 billion of revenue bonds outstanding. As of first year-end 2021, it also has approximately \$19.7 million of subordinate state infrastructure bank loans outstanding.

Credit overview

The rating reflects the turnpike system's very strong financial position entering the pandemic, including relatively high debt service coverage (DSC; S&P Global Ratings-calculated) and cash reserves and extremely strong debt capacity. The rating further reflects our assessment of the combination of the turnpike system's very strong enterprise and financial risk profiles. It also reflects our opinion that the turnpike system serves one of the most-populous U.S. states with above-average population growth, which we believe will support generally favorable traffic trends and financial metrics through the economic recovery. Our enterprise risk profile assessment incorporates the turnpike system's historically favorable traffic trends due to its important role, strategic location, and lack of significant competition from toll-free roads. Our financial risk profile assessment considers the turnpike system's historically good revenue growth from periodic toll rate increases and favorable traffic trends, which we anticipate will continue to strengthen within our outlook period. With improving traffic levels, we believe the system can maintain strong financial performance and a

potentially extremely strong capacity to manage rising debt levels from its rolling, multibillion-dollar capital improvement program. In tandem, we believe it can maintain its strong overall liquidity and financial flexibility as traffic levels recover and management remains proactive in adjusting its capital spending and timing its toll rate increases.

The turnpike system consists of several components. The principal one, the 320-mile Mainline (representing two-thirds of the turnpike system's total gross toll revenues for fiscal 2020), 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 Connector in Hillsborough County;
- The 22-mile Beachline East Expressway in Orange and Brevard counties; and
- The 15-mile First Coast Expressway in Clay and Duval counties.

The turnpike system is large and diverse, in our view, serving 19 of Florida's 67 counties, accounting for more than 67% of the state's population. Large portions of the system have historically functioned as congestion relievers. The Beachline West, Western Beltway (Part C), and Southern Connector Extension, however, serve more tourist and recreational areas, providing access to Disney World and other area attractions, which have been hard hit by pandemic-related restrictions.

As a result of COVID-19 and associated effects, systemwide toll transactions and toll revenues for April 2020 (the worst month) were approximately 51% and 54% lower than April 2019, respectively.

Systemwide traffic declined 7.6% for the fiscal year ended June 30, 2020 (latest audited fiscal year), with the first eight months of the fiscal year (June through March) increasing 5.0%, on average, followed by a 31.7% decline during the last four months (March through June) due to policy directives issued by the state and local governments in response to the pandemic. Fiscal year 2020 total operating revenues fell 7.6% primarily due to a 9.1% decrease in systemwide toll revenues, partially offset by the resumption of toll administrative charges that were temporarily suspended during fiscal 2019 in connection with the transition to a new electronic toll collection processing system. Fiscal 2020 total operating expenses increased 7.9%, primarily due to a rise in renewal and replacement expenses. Despite the

substantial drop in traffic from March through June, S&P Global Ratings-calculated fiscal 2020 metrics for the turnpike system remained favorable, with DSC over 2x, a debt-to-net revenue ratio below 5x, and more than 780 days' cash on hand as of June 30, 2020 (latest audited fiscal year).

While we had anticipated systemwide traffic remaining substantially lower than pre-pandemic levels for an extended period, the pace of the recovery has demonstrated the system's overall resiliency and central importance to commuting travelers. Preliminary fiscal year 2021 gross revenues increased approximately 1.4% relative to fiscal year 2020. Since peak declines in April 2020, toll transactions and revenues have reverted to growth and by August 2021, were up 23.7% and 20.3%, respectively, relative to the same month a year earlier, and remaining in line with 2019 levels. A turnpike-commissioned traffic-and-revenue study (dated September 2021) assumes net revenue will be up approximately 6.2% in fiscal year 2022, and nearly 6% in fiscal year 2023.

As the economic recovery continues to accelerate, we anticipate transactions and revenues continuing the trend of gradual improvement near or exceeding pre-pandemic levels. In our view, traffic trends will continue to be shaped by evolving consumer preferences, behavior, and shifting employment pattern shifts, which could generate longer-term structural challenges, in our view.

Additionally, these toll revenue projections do not include the statutorily required toll rate indexing that must occur by the end of calendar year 2022. Such toll rate increases, in our opinion, are important in terms of enabling the turnpike system to potentially maintain financial metrics consistent with the current rating, given its borrowing plans. SunPass and TOLL-BY-PLATE toll rate adjustments must occur no more frequently than annually and no less frequently than once every five years, while the cash toll rate is adjusted every five years by the change in CPI over the previous five years and adjusted to the next-higher quarter. In fiscal 2018, SunPass and TOLL-BY-PLATE toll rates were increased 1.3% and rounded to the penny, while cash toll rates were increased 6.6% and rounded to the next-higher quarter. All toll rates were held constant in fiscal years 2019-2021. Given that the turnpike system has a track record of exceeding forecasts and using conservative forecasting assumptions, we believe traffic and toll revenues will likely exceed their initially forecasted levels and gradually improve to pre-pandemic levels and trends.

Key credit strengths, in our opinion, are the turnpike system's:

- Historically resilient demand characteristics given its important role in facilitating intrastate and interstate commerce, strategic location, and lack of significant competition;
- Historically strong total DSC (S&P Global Ratings-calculated) over 2.0x, extremely strong debt capacity (debt-to-net revenues below 5x), and relatively high unrestricted cash reserves (\$896.8 million as of June 30, 2020, or 783 days' cash on hand per our calculations and \$775.7 million as of Jan. 31, 2021);
- Extremely strong service area economic fundamentals, which include historically favorable levels of economic activity as measured by GDP per capita and a large and growing population base; and
- Conservative and comprehensive financial and capital planning, as evidenced by a history of meeting or exceeding most operational and financial goals, detailed financial forecasts that are updated frequently to address material variances, and a very capable staff that has considerable experience operating a statewide tolling agency.

Key credit weaknesses, in our view, are the turnpike system's:

- Potentially lower traffic levels and toll revenues longer term due to evolving and unpredictable shifts in changing work environments, commuting, and vacationing habits, vaccine progress, and the pace of the economic recovery; and
- Significant capital program (\$8.9 billion current capital plan and a five-year work program for fiscal years 2022-2026) that requires approximately \$2.5 billion of additional planned bond issuances through fiscal 2026 and use of cash reserves to fund, which could pressure financial metrics.

Environmental, social, and governance factors

We assessed the turnpike system's environmental, social, and governance (ESG) risks relative to its market position, management and governance, and financial performance, and determined that, with the exception of environmental factors, all are credit neutral relative to the toll-road sector. In our view, the turnpike's environmental risks are a moderately negative consideration in our rating analysis based on the state's vast coastline, which exposes it to extreme weather events and long-term sea-level rise that could disrupt the turnpike's operations following an event.

Stable Outlook

Upside scenario

We do not expect to raise the rating during the next two years due to FTE's sizable additional debt plans and our opinion that its market position will not change.

Downside scenario

We could lower the rating in the next two years if we believe FTE's debt capacity metrics will weaken to levels we consider very strong or we believe its days' cash on hand metric will weaken to levels we consider strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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