

Rating Action: Moody's assigns Aa2 to Florida Department of Transportation's Turnpike Revenue Bonds, Series 2022B; outlook stable

18 Mar 2022

New York, March 18, 2022 -- Moody's Investors Service, ("Moody's") has assigned a Aa2 rating to the Florida Department of Transportation's (FDOT) \$134.9 million Turnpike Revenue Bonds, Series 2022B. 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 \$8.9 billion large capital improvement plan (CIP) is implemented through FY 2026. We expect forecast toll revenue growth and annual debt amortization to balance the \$2.1 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 add 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.

A recent amendment to the state legislated toll rate regime is credit negative as it contradicts the historically credit supportive state legislated toll rate regime that requires toll rates to be adjusted by CPI at least once every five years on state-owned toll roads. The amendment prohibits inflation toll rate adjustment from taking place in fiscal 2023, which would have been the year the Turnpike otherwise would have been required to adjust its toll rates by the total cumulative CPI over the last five years since its last toll rate increase. If a toll rate adjustment was needed to comply with bond covenants it can still be made, but this is not required at this time. This is a credit negative development as it shows a weakening of the state's established tolling policy for state owned toll roads in Florida. Owing to the strong coverage and liquidity and low leverage of the Turnpike, a toll rate increase is not needed to maintain sound financial metrics as traffic continues to recover. We expect the Turnpike to adequately adjust its toll rates when needed to ensure its financial position remains strong and in line with its rating category.

Despite the pandemic, fiscal 2020 and 2021 (ended June 30) financial metrics remained strong, and we expect this to continue. For the first six months of fiscal 2022, from July to December 2021, transactions and toll revenues were 9.3% and 0.2% higher than the same period before the pandemic from July 2019 through December 2019, showing a recovery from the initial pandemic traffic and revenue losses. Toll revenues have recovered slower than traffic to date owing to a change in how transactions are counted due to a continued increase in all electronic tolling. However, we expect traffic to continue to improve moving forward due to typical broad economic drivers like population, GDP and employment growth.

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 benefit from a senior lien on the net revenues of the state's multi-component turnpike system with a 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).

With the issuance of the 2021C bonds in fiscal 2022, the turnpike system reached the threshold (50% of principal outstanding) required to invoke a new covenant allowing the turnpike system to eliminate the debt service reserve fund (DSRF) requirement. As a result, the 2022B bonds will not have a DSRF and the turnpike system does not plan to fund DSRFs for future bond issuances. The financial covenant removing the DSRF requirement for new bonds also allows the turnpike system to liquidate the outstanding DSRFs for all bondholders that consented to the covenant, which includes bond series 2018A through 2021B. There is currently no intention to liquidate these DSRFs that are cash-funded at 125% of average annual debt service. The turnpike system has a long history of maintaining high levels of internal liquidity maintained through strong DSCRs, and the system has state support of O&M expenses if needed.

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

The Series 2022B bond proceeds will fund a portion of the CIP.

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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