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**Summary:**

## Florida Florida Turnpike Enterprise; Toll Roads Bridges

**Primary Credit Analyst:**

Oscar Padilla, Dallas + 1 (214) 871 1405; oscar.padilla@spglobal.com

**Secondary Contact:**

Joseph J Pezzimenti, New York + 1 (212) 438 2038; joseph.pezzimenti@spglobal.com

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## Summary:

# Florida

## Florida Turnpike Enterprise; Toll Roads Bridges

### Credit Profile

US\$134.86 mil tpk rev bnds (State of Florida) ser 2022B due 07/01/2052

*Long Term Rating*

AA/Stable

New

### Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Florida's series proposed \$134.86 million 2022B turnpike revenue bonds, issued for the Florida Turnpike Enterprise (FTE). The outlook is stable. The series 2022B bond proceeds will be used to will be used to fund various projects.

A pledge of the system's net revenues after operation and maintenance expenses secures the bonds. Unlike certain 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). 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. At this time, only the series 2013A-2021B will benefit from the existing DSR subaccounts.

FTE expects to have approximately \$3.26 billion of revenue bonds outstanding following the issuance of the series 2022B bonds (excludes series 2022A which is pending sale). As of fiscal 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, including relatively high debt service coverage (DSC; S&P Global Ratings-calculated) and cash reserves, coupled with extremely strong debt capacity. It 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 and fastest-growing U.S. states, which we believe will support generally favorable traffic trends and financial metrics through the continuing economic recovery. Our enterprise risk profile assessment incorporates the turnpike system's historically favorable traffic trends due to its strategic location and lack of significant competition from toll-free roads in the state. 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 (CIP). 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 2021), 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 two-thirds 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 were disproportionately affected by pandemic-related restrictions in 2020, though have subsequently recovered.

Fiscal year 2020 total operating revenues fell 7.6% primarily due to a 9.1% decrease in systemwide toll revenues, though 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. Total operating expenses increased 7.9%, primarily due to a rise in renewal and replacement expenses.

As FTE transitioned into fiscal year 2021, we had anticipated systemwide traffic remaining substantially lower than pre-pandemic levels for an extended period, but the pace of the recovery demonstrated the system's overall resiliency and central importance to commuting travelers. By fiscal year-end gross toll revenues increased approximately 1.4% relative to fiscal year 2020 and were roughly 92% of fiscal year 2019 levels.

S&P Global Ratings-calculated fiscal 2021 metrics for the turnpike system are favorable, with DSC over 2x, a debt-to-net revenue ratio below 5x, and nearly 500 days' cash on hand as of June 30, 2021. Fiscal year-to-date

transactions are up 32%, 10%, and 15%, compared to the same period in fiscal years 2021, 2020, and 2019, respectively, reflecting the system's overall strong recovery. Correspondingly a turnpike-commissioned traffic-and-revenue study (dated September 2021) assumes net revenue will be up approximately 5.9% in fiscal year 2022, and nearly 6% in fiscal year 2023. As the economic recovery continues to mature, we anticipate transactions and revenues continuing the trend of strengthening and based on current trends, likely continue to exceed pre-pandemic levels. In our view, traffic trends will nevertheless continue to be shaped by evolving consumer preferences, behavior, and shifting employment pattern shifts, which could generate longer-term structural challenges, in our view.

Current toll revenue projections do not include the statutorily required toll rate indexing that was set to occur by the end of calendar year 2022 or subsequent years. However, the legislature, subject to the governor's signature, adopted legislation that would prohibit an increase in tolls in fiscal year 2023. We have viewed the system's scheduled toll rate increases as important in terms of enabling the turnpike system to maintain financial metrics consistent with the current rating, given its borrowing plans. Preceding the legislative change, SunPass and TOLL-BY-PLATE toll rate adjustments were to occur no more frequently than annually and no less frequently than once every five years, while the cash toll rate are to be 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 the last three fiscal years. To the extent policy changes alter financial metrics, we would assess the longer-term credit effect, if any. 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.

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 (approximately \$610 million as of June 30, 2021, or 493 days' cash on hand per our calculations);
- 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.

The key credit strengths above, are somewhat offset by the turnpike system's significant CIP (\$8.9 billion current capital plan and a five-year work program for fiscal years 2022-2026) that requires approximately \$2.6 billion of planned bond issuances through fiscal year 2026, including approximately \$500 million of new money bonds issued in the current fiscal year as well as the series 2022B bonds and the potential use of cash reserves to fund, which could pressure financial metrics.

The stable outlook reflects our view that FTE's credit metrics will be supported by continued improvement in

transactions and revenues while it manages its CIP.

### **Environmental, social, and governance**

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. We note the state's broader population growth positions the system to benefit to the extent it translates to greater transactions and revenues. However, 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 FTE's debt capacity and cash on hand metrics were to deteriorate from current levels for a persistent period.

## **Related Research**

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, April 28, 2020

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