

RatingsDirect®

Summary:

State of Florida; Toll Roads Bridges

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Summary:

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Credit Profile

US\$189.19 mil tpk rev bnds ser 2022C due 07/01/2052

Long Term Rating

AA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Florida's proposed \$189.19 million series 2022C turnpike revenue bonds, issued for the Florida Turnpike Enterprise (FTE).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating on FTE's turnpike revenue bonds outstanding.
- The outlook is stable.

Security

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 certain previously issued bonds, though FTE may remove them in the future. To the extent coverage and liquidity remain relatively high, the adoption of the amendment will not have a substantial credit impact on the turnpike system, in our view. Should credit metrics weaken, however, the lack of a DSR could cause downward rating pressure. Only the series 2013A-2021B currently benefit from the DSR subaccounts. Bond proceeds will be used to fund various projects.

FTE expects to have approximately \$3.29 billion of revenue bonds outstanding following the issuance of the series 2022C bonds. As of fiscal year-end 2022 (June 30), it also had approximately \$16.5 million of subordinate state infrastructure bank loans outstanding.

Credit overview

The rating reflects the turnpike system's very strong enterprise risk and financial risk profiles from serving one of the fastest-growing and most-populous states that we believe will continue to support favorable traffic trends and financial resiliency through economic cycles.

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 remain stable within our outlook period. Two days prior to Hurricane Ian's landfall (Sept. 28) in the state, tolls were suspended across certain segments in the system (which will be lifted on

Oct. 15). We understand from management there was no meaningful damage to the system, and it remains fully operational. The financial losses resulting from the temporary suspension in tolls is not known at this time, though, given its geographic breadth, we believe it will not have a material effect on the system's financial metrics. With continued traffic level growth anticipated, 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.

As FTE transitioned into fiscal 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 2021, toll revenues increased approximately 1.4% relative to fiscal 2020 and were roughly 92% of fiscal 2019 levels. For fiscal 2022, estimated toll revenues increased 13.2% from fiscal 2021 levels on stronger transaction growth across the system.

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

- 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; 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 (\$8.7 billion current capital plan and a five-year work program for fiscal years 2023-2027) that requires approximately \$2.7 billion of planned bond issuances through fiscal year 2027, including current offering, and the potential use of cash reserves to fund, which could pressure financial metrics.

Environmental, social, and governance

We evaluated 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 that 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.

Outlook

The stable outlook reflects our view that FTE's credit metrics will be supported by continued growth in transactions and revenues while it manages its CIP.

Downside scenario

Although we do not anticipate it, we could lower the rating within the outlook period if FTE's debt capacity and cash on hand metrics were to deteriorate from current levels for a persistent period. Additionally, to the extent the system's CIP growth outpaces organic revenue growth without toll-rate increases, could add pressure to financial metrics.

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.

Credit Opinion

Our enterprise risk profile assessment of very strong reflects service area economic fundamentals, a market position, industry risk, and management and governance assessments we consider extremely strong, very strong, low, and extremely strong, respectively. The turnpike system's size, diversity, historically favorable traffic trends due to its strategic location and lack of significant competition from toll-free roads in the state were key considerations.

The turnpike system serves 20 of Florida's 67 counties, accounting for more than two-thirds of the state's population. The principal component, 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 three subcomponents: Turnpike Mainline-SR 821, Turnpike Mainline-SR 91 (MP OX to MP 309), and the Beachline West Expressway.

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 they have subsequently recovered.

Our financial risk profile assessment of very strong reflects: strong financial performance, extremely strong debt and liabilities capacity, strong liquidity and financial flexibility, and financial policies as credit neutral. Our assessment considers audited 2021 results, estimated 2022 results, current toll revenue projections, and financing of its rolling, multibillion-dollar CIP.

S&P Global Ratings-calculated fiscal 2021 metrics (latest audited) 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. Based on unaudited estimates for fiscal 2022, credits metrics are expected to improve from fiscal 2021, though in line with their historical levels. A turnpike-commissioned traffic-and-revenue study (dated September 2022) assumes gross revenues will be up

approximately 2.2% in fiscal year 2023, and nearly 2.8% in fiscal year 2024. Temporary toll suspensions notwithstanding, we anticipate transactions and revenues continuing the trend of strengthening and based on trends, though broader economic softness could partially mute growth. S&P Global Ratings sees possible dampening of demand as weaker macroeconomic conditions take hold, with our report "Economic Outlook U.S. Q4 2022: Teeter Totter," published Sept. 26, 2022, on RatingsDirect, pointing to a shallow recession in the first half of 2023. 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 adopted legislation that would prohibit an increase in tolls in fiscal 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 is to be adjusted every five years by the change in CPI over the previous five years and adjusted to the next-higher quarter. All toll rates were held constant in the last four 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.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 14, 2022)		
Florida Tpk Enterprise, Florida		
State of Florida, Florida		
Florida Tpk Enterprise (Florida) toll rds / br		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Florida, Florida		
Florida Tpk Enterprise, Florida		
Florida (Florida Tpk Enterprise) dept of transp tpk rev bnds ser 2020B due 07/01/2021-2050		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Florida (Florida Tpk Enterprise) toll rds & br		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Florida (Florida Tpk Enterprise) tpk rev bnds (Florida Dept Of Transp) ser 2003C dtd 10/01/2003 due 07/01/2004-2026 2028 2030 2033		
<i>Long Term Rating</i>	NR	
Florida (Florida Tpk Enterprise) tpk rev bnds (Florida Dept Of Transp) ser 2003C dtd 10/01/2003 due 07/01/2004-2026 2028 2030 2033		
<i>Unenhanced Rating</i>	NR(SPUR)	
Florida (Florida Tpk Enterprise) tpk rev bnds (Florida Tpk Enterprise) ser 2004A dtd 12/01/2004 due 07/01/2005-2031 2034		

Ratings Detail (As Of October 14, 2022) (cont.)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Florida (Florida Tpk Enterprise) tpk rev rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Florida (Florida Tpk Enterprise) tpk rev rfdg bnds (Florida Dept of Transp) ser 2003B dtd 07/01/2003 due 07/01/2004-2025		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Florida (Florida Tpk Enterprise) tpk ser 2000B dtd 11/01/2000 due 07/01/2001-2025 2030		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
Florida (Florida Turnpike Enterprise)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Florida (Florida Turnpike Enterprise) rev bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
State of Florida (Florida Tpk Enterprise) dept of transp tpk rev bnds (Florida) ser 2020B due 07/01/2021-2050		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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