



RATING ACTION COMMENTARY

# Fitch Rates Florida Turnpike Enterprise's Rev Bonds 'AA'; Outlook Stable

Fri 27 Jan, 2023 - 4:40 PM ET

Fitch Ratings - New York - 27 Jan 2023: Fitch Ratings has assigned a 'AA' rating to the Florida Department of Transportation's (FDOT) approximately \$176.7 million of series 2023A senior lien revenue bonds. The Florida Turnpike Enterprise (FTE), a division of FDOT, operates the state's turnpike system. The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Florida Department of Transportation (FL) [Turnpike]				
Florida Department of Transportation (FL) /Toll Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

## **RATING RATIONALE**

The 'AA' rating reflects the turnpike system's standing as an essential network used by a broad customer base in a strong service area. The turnpike system benefits from considerable rate-making flexibility, evidenced by the legal ability to adjust toll rates above the Consumer Price Index (CPI) and the precedent of several above-inflationary toll rate increases.

The rating also reflects the turnpike's substantial capital improvement program, which has supported the continued expansion and maintenance of the turnpike but is currently expected to require \$3 billion in debt issuances through fiscal 2028. FTE's resilient financial profile evidenced by high debt service coverage and moderate leverage metrics mitigates concern regarding future debt issuance and remains commensurate with its 'AA' rating.

## **KEY RATING DRIVERS**

### **Strategically Important Turnpike System - Revenue Risk (Volume): High Stronger**

FTE's toll roads comprise a critical, mature transportation system underpinned by a large commuter base and limited competition. FTE's expansion of the system, coupled with sustained healthy demand, has resulted in resiliency and continued growth of the traffic base, evidenced by FTE's lack of notable traffic declines since 1990 with the exception of the last recession and the coronavirus pandemic. The turnpike has also benefited from minimal elasticity of demand in response to rate increases, which Fitch expects to continue given the asset's essentiality combined with competitive toll rates.

### **Strong Rate-Making Flexibility - Revenue Risk (Price): Stronger**

FTE benefits from considerable flexibility to increase toll rates and a legal framework to implement scheduled rate increases that track inflation. FTE's toll rates are indexed to the CPI, with the ability to increase electronic toll rates once every year but no less than every five years and cash rates every five years. Toll adjustments above the CPI index are permitted as needed to comply with bond documents and covenants. FTE has implemented above-inflationary rate increases occasionally in the past as needed, albeit most historical rate increases have tracked inflation.

### **Manageable Work Program - Infrastructure Development & Renewal: Stronger**

The turnpike's five-year work program (fiscal years 2024-2028) totals approximately \$9.8 billion of projects, \$3.0 billion of which is funded by planned bond issuances through fiscal

year 2028 not including the 2023A bonds. The plan focuses on increasing capacity and access to the system. Several lane-widening projects that are expected to be completed will continue to enhance the turnpike's capacity. The turnpike system is in good condition overall, and its asset condition monitoring regime is robust.

### **Conservative Debt Portfolio - Debt Structure: Stronger**

The turnpike's debt structure is conservative, featuring all senior, fully amortizing fixed-rate debt. Outstanding debt is limited by a bond cap of \$10 billion. Outstanding bonded debt remains below 33% of the limit and total debt pro forma for new issuances is expected to remain comfortably within the limit, peaking at approximately 55% of capacity in 2028 in Fitch's cases. FTE's outstanding debt service profile including the 2023A bonds declines from 2024 through final maturity in 2052. Including Fitch estimated future debt issuances, debt service will reach its maximum in 2028 and will steadily decline through 2057.

### **Financial Profile**

FTE benefits from a strong financial profile with high net operating margins which is expected to remain consistent with the current rating level despite sizable capital program-related debt issuances coming on line over the next five years. FTE's fiscal 2021 and 2022 debt service coverage ratio (DSCR) remained robust at 3.0x and 3.4x, respectively, recovering back to pre-pandemic coverage levels above 3x. DSCR is expected to remain strong with a 10-year average of 2.6x in Fitch's rating case. Net debt to cash flow available for debt service (leverage) was 2.3x in fiscal 2022 and peaks around 4x in fiscal 2028 under Fitch's rating case.

### **PEER GROUP**

Maryland Transportation Authority (MDTA; AA/Stable) and Pennsylvania Turnpike Commission (PTC; AA- senior/A subordinate/Stable) are among FTE's closest peers. Each operates a strong turnpike system with both urban and rural segments and has considerable pricing flexibility. FTE and MDTA feature comparable DSCR and leverage profiles, as well as similar passenger toll rates, resulting in the same rating. PTC's recent upgrade reflects the strengthening credit profile and improved financial flexibility following the partial sunset of its Act 44 transfer obligations. However, PTC's higher leverage on both liens is commensurate with its lower rating than FTE.

### **RATING SENSITIVITIES**

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

--Erosion of DSCR below 2.0x for a sustained period due to lower than anticipated revenues from decreased transactions or minimal toll increases would put pressure on the rating.

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

--The rating is unlikely to rise due to future investment and political risks inherent to toll systems.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

**TRANSACTION SUMMARY**

FDOT is issuing approximately \$176.7 million in series 2023A turnpike revenue refunding bonds. Proceeds of the 2023A bonds will be used to refund \$38.4 million of series 2013A bonds maturing in 2024 and 2025, \$167.2 million of series 2013C bonds maturing in the years 2024 through 2043 and cover the costs of issuance. The bonds will bear a tax-exempt fixed rate of interest with a final maturity of 2043 and be on parity with other senior lien revenue bonds.

**CREDIT UPDATE**

Traffic is up approximately 22.7% yoy in fiscal 2023 YTD (up to November). The larger number of transactions was attributed to continued growth in commuter and tourist traffic, the addition of new capacity from the opening of the Suncoast Parkway extension in February 2022, and the change in mainline toll collection to all electronic tolling (AET) which resulted in more transactions per trip.

2023 YTD revenues are approximately 3.2% lower yoy due to the temporary suspension of tolls for Hurricane Ian. The toll suspension accounted for a reduction in revenue of

approximately \$24 million, representing roughly 2% of fiscal 2022 system revenues. The revenue impact was in line with Fitch's case assumptions.

Following Florida's 2022 legislative session, the SunPass Savings six-month discount program announced by the Governor in August 2022 was reduced to four months (Sept. 1, 2022 through Dec. 31, 2022) and will provide frequent users with 40 and 80 or more transactions per calendar month a credit of 20% and 25% respectively. The four-month program will result in approximately \$16 million of credits issued to eligible SunPass customers, which is expected to be reimbursed.

For the calendar year 2023, a separate toll relief program will be implemented for the turnpike system and other state-owned toll roads, benefiting frequent users with 35 or more transactions in a month with a 50% credit. The 2023 toll relief program will be revenue neutral to FTE since the state appropriated \$500 million of funds to reimburse FTE and other state-owned toll authorities for the program.

An amendment adopted during the legislative session prohibits adjusting toll rates for inflation during fiscal year 2023 until July 1, 2023. Fitch views this legislative action as a likely one-time occurrence due to the current post-pandemic and high inflation environment. Other toll roads have also temporarily paused indexing. Fitch believes political interference remains minimal and is not a material concern to FTE's toll rate making regime. FTE does not need to rely on toll rate increases to sustain debt service coverages commensurate with its rating level and Fitch conservatively excludes rate increases in its base and rating cases. Nonetheless, Fitch will continue to monitor any new political intervention, which may hinder FTE's ability to raise tolls.

The turnpike published an updated tentative capital improvement plan for fiscal 2024 through 2028 of approximately \$9.8 billion, up from previous program spend of \$8.7 billion. After the 2023A issuance, roughly \$3 billion in debt is expected to be issued over the next five years to support the capital plan. The plan focuses mostly on road maintenance as well as expansionary projects, which will be additive to revenue generation. While the plan is larger in size and leverage is expected to increase with future issuances, FTE's demonstrated revenue growth, high net margins and liquidity position of over \$900 million in unrestricted cash continue to provide ample cushion for its rating level.

## ASSET DESCRIPTION

The Florida Turnpike Enterprise, a division of Florida Department of Transportation, operates the state's turnpike system which consists of multiple components spanning more

than 500 miles across the state. The 320-mile Mainline is the principal component and the system also includes the 18-mile Seminole Expressway, the 15-mile Veterans Expressway, the 6-mile Southern Connector Extension, the 25-mile Polk Parkway, the 55-mile Suncoast Parkway, the 23-mile Sawgrass Expressway, the 11-mile Daniel Webster Western Beltway, Part C, the 1-mile I-4 Connector, the 22-mile Beachline East Expressway and the 15-mile First Coast Expressway.

## **DATE OF RELEVANT COMMITTEE**

11 October 2022

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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**APPLICABLE CRITERIA**

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

[Infrastructure & Project Finance Rating Criteria \(pub. 20 Jul 2022\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.1 ([1](#))

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