



RATING ACTION COMMENTARY

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

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Fitch Ratings - Chicago - 15 Mar 2024: Fitch Ratings has assigned an 'AA' rating to the Florida Department of Transportation's (FDOT) approximately \$142 million of series 2024A senior lien turnpike revenue refunding bonds. In addition, Fitch has affirmed the 'AA' rating on the outstanding 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 - First Lien - Turnpike/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 \$3.2 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

Revenue Risk - Volume - High Stronger

Strategically Important Turnpike System: 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.

Revenue Risk - Price - Stronger

Strong Rate-Making Flexibility: 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, with most historical rate increases tracking inflation.

Infrastructure Dev. & Renewal - Stronger

Manageable Work Program: The turnpike's six-year work program (fiscal 2024-2029) totals approximately \$13.5 billion of projects, with roughly a quarter to be funded by planned bond issuances. 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.

Debt Structure - 1 - Stronger

Conservative Debt Portfolio: The turnpike's debt structure is conservative, comprised of all senior, fully amortizing fixed-rate debt. Outstanding debt is limited by a bond cap of \$10 billion. Outstanding bonded debt remains at approximately one third of the limit and total debt pro forma for new issuances is expected to remain comfortably within the limit in Fitch's cases. FTE's debt service including Fitch-estimated future debt issuances reaches its maximum in fiscal 2029, then steadily declines through final maturity.

Financial Profile

FTE benefits from a strong financial profile with high net operating margins, which Fitch expects 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 2023 debt service coverage ratio (DSCR) remained robust at 3.4x. DSCR is expected to remain strong with a 10-year average of 2.9x in Fitch's rating case. Net debt to cash flow available for debt service (leverage) was 2.2x in fiscal 2023 and reaches 3.2x 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 rating reflects a 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

--Given FTE's already high rating level and sector-wide risks inherent to toll roads and bridge systems, upward rating action is unlikely.

TRANSACTION SUMMARY

FDOT is issuing approximately \$142 million in series 2024A turnpike revenue refunding bonds. Proceeds of the 2024A bonds will be used to refund a portion of series 2014A bonds and cover the costs of issuance. The bonds will bear a tax-exempt fixed

rate of interest with a final maturity of 2040 and be on parity with other senior lien revenue bonds.

CREDIT UPDATE

In fiscal 2023 (year-end June 30), total traffic increased by 12.9% yoy mainly due to continued growth in commuter and tourist traffic and the change in mainline toll collection to all electronic tolling which resulted in more transactions per trip. Total toll revenue in fiscal 2023 increased by 1.9% when compared with fiscal 2022 and slightly exceeded the previous base case. The increase in toll revenue is attributed to the traffic growth on the system. The toll suspension for Hurricane Ian accounted for a reduction in revenue of approximately \$24 million in fiscal 2023.

Total traffic for YTD 2024 (six months ended December) increased approximately 4.8% when compared with the same period in fiscal 2023. YTD 2024 total toll revenue increased by 16.3% yoy mainly due to the authority incorporating approximately 8% toll rate increase for the system, implemented on July 1, 2023. The authority had a temporary suspension of tolls for Hurricane Idalia. The toll suspension accounted for a reduction in revenue of approximately \$5 million.

During Florida's 2024 legislative session, a toll relief program has been adopted, subject to approval from the governor, for the turnpike system and other state-owned toll roads, benefiting frequent users with 35 or more qualifying transactions in a month with a 50% credit. The 2024 toll relief program will be revenue neutral to FTE since the state appropriated \$450 million of funds to reimburse FTE and other state-owned toll authorities for the program.

The turnpike published an updated tentative capital improvement plan for fiscal 2024 through fiscal 2029 of approximately \$13.5 billion. After the 2024A issuance, roughly \$3.2 billion in debt is expected to be issued through fiscal 2028 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.

FINANCIAL ANALYSIS

Fitch's cases include the expected future debt issuance from the current work program of roughly \$3.2 billion and the 2024A issuance. No toll rate indexing is included during the projection period.

Fitch's base case assumes fiscal 2024 follows the sponsor case forecast for fiscal 2024; thereafter Fitch applies a 2% revenue growth rate per annum. Concession revenues and toll administrative charges follow sponsor projections. Fitch has also adopted management's budgeted operating expenses for fiscal 2024 and 2025 given higher expected costs from inflation and maintenance. From fiscal 2026 thereafter, operating expenses grow at 3.0% per annum for subsequent years. Under this scenario, base case 10-year DSCR averages a high 3.0x with net leverage of 3.2x in year five.

The rating case incorporates a recessionary revenue decline to sponsor projections in fiscal 2025, guided by the peak-to-trough decline observed on the turnpike system during previous economic cycles. Toll revenue then recovers back to base case levels in 2028 and annual revenue growth is kept at 2% thereafter. Operating expenses are assumed to grow at rates 50 basis points higher than those in the base case. The rating case 10-year DSCR averages a still strong 2.9x with similar net leverage of 3.2x at year five. Rating case metrics remain robust under the recessionary conditions and are consistent with current rating levels.

SECURITY

Turnpike revenue bonds are secured by a first lien on the net revenues of the turnpike.

Asset Description

The Florida Turnpike Enterprise (FTE), a division of Florida Department of Transportation (FDOT), operates the state's turnpike system. The turnpike system consists of multiple components spanning more than 500 centerline miles across the state of Florida with the principal component, the 320-mile Mainline. In addition to the Mainline, 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, the 1-mile I-4 Connector, the 22-mile Beachline East Expressway, the 15-mile First Coast Expressway, and the 3-mile Garcon Point Bridge.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[Infrastructure & Project Finance Rating Criteria \(pub. 17 May 2023\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 18 Dec 2023\) \(including rating assumption sensitivity\)](#)

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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