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Ratings

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Summary:

Florida
Florida Turnpike Enterprise; Toll Roads Bridges

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Credit Profile		
US$114.4 mil dept of transp turnpike rev bnds (State of Florida) ser 2024D due 07/01/2054		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Florida's proposed $114.4 million series 2024D turnpike revenue bonds, issued for the Florida Turnpike Enterprise (FTE).
- The outlook is stable.

Security

A pledge of the system's net revenue after operational and maintenance expenses secures the bonds. The bonds will not benefit from a 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 bonds outstanding (series 2018A-2021B). We understand that 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, we believe the adoption of the amendment will not have a substantial credit impact on the turnpike system. However, should credit metrics weaken or a liquidity event occur, the lack of a DSR could cause downward rating pressure. Only the series 2012A-2021B bonds currently benefit from the DSR subaccounts. Bond proceeds will be used to fund system projects. Bond proceeds will be used to finance system capital projects.

FTE expects to have approximately $3.55 billion of revenue bonds outstanding following the issuance of the series 2024D bonds. As of fiscal year-end 2024 (June 30), it also had approximately $10.1 million of subordinate state infrastructure bank loans outstanding.

Credit overview

Anchored by FTE's large service base, our assessment of its enterprise and financial risk profiles remains very strong. While we anticipate broader economic momentum will moderate for the balance of 2024, we believe Florida's demographic strengths will support positive traffic trends and corresponding 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 favorable traffic trends and periodic toll-rate increases producing healthy financial metrics, which we expect will continue through our outlook period.

Given the system's anticipated continued traffic-level growth, we believe it 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 grow and management remains proactive in adjusting its capital spending and timing its toll-rate increases.

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

- Resilient demand characteristics, given its important role in facilitating intrastate and interstate commerce, along with its strategic location and lack of significant competition;
- Historically strong total debt service coverage (DSC; S&P Global Ratings-calculated) of over 2.0x, extremely strong debt capacity (debt-to-net revenue below 5.0x), 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, in our view, somewhat offset by the turnpike system's significant CIP ($10.6 billion current capital plan and a five-year work program for fiscal years 2025-2029) that requires approximately $3.9 billion of planned bond issuances through fiscal 2029 and the potential use of cash reserves to fund, which we believe could pressure financial metrics.

Environmental, social, and governance

We evaluated the turnpike system's environmental, social, and governance (ESG) factors relative to its market position, management and governance, and financial performance, and determined that, with the exception of environmental factors, all are credit neutral in our rating analysis. We note that the state's broader population growth positions the system to benefit, to the extent that it translates to greater transactions and revenue. However, in our view, the turnpike's physical 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 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 revenue while it manages its CIP.

Downside scenario

Although we do not anticipate doing so, we could lower the rating within the outlook period if debt issuance were to outpace organic revenue, leading to a diminished debt burden capacity and cash-on-hand metrics from current levels for an extended period.

Upside scenario

We do not expect to raise the rating during the next two years due to FTE's anticipated debt plans and our opinion that its market position will not change.

Credit Opinion

Enterprise Risk Profile: Very Strong

Our enterprise risk profile assessment of very strong reflects service area economic fundamentals, market position, industry risk, and management and governance assessments we consider extremely strong, very strong, low, and extremely strong, respectively.

Resilient demand and economic fundamentals support overall credit quality

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 are key considerations in our assessment. The system serves 22 of Florida's 67 counties, which together account for more than two-thirds of the state's population. The principal component, the 320-mile Mainline (which represented two-thirds of the turnpike system's total gross toll revenue for fiscal 2023), 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 0X to MP 309), and the Beachline West Expressway. S&P Global Market Intelligence projects continued population growth relative to that of the nation, supporting ongoing economic growth exceeding that of the U.S. rate as well.

Traffic trends demonstrate ongoing strong passenger vehicle performance, with continued traffic and revenue performance over forecast period

FTE's latest traffic and earnings report (September 2024) provides forecast toll traffic and revenue for the system from fiscal years 2025-2035. The report forecasts total system toll revenue increasing to roughly $1.55 billion by fiscal 2035, from $1.3 billion in fiscal 2024 (unaudited), reflecting approximately 2% annualized growth, with roughly equal transaction growth. Overall, we expect management will work to balance capital projects and continue increased tolls to maintain overall financial performance. We believe the underlying assumptions are reasonable and achievable, with actual total system traffic exceeding expectations in recent years.

Tenured management team remains responsive to growing system demands

In our view, the management team has considerable expertise and experience due to its long tenure with the turnpike. Management provides frequent and high-quality disclosure and maintains a detailed long-range financial forecast. In addition, it has adopted a variety of financial policies, including a DSC policy (1.5x on all annual debt service) and a liquidity standard policy. We consider these types of codified arrangements prudent in terms of managing FTE's operations.

Financial Risk Profile: Very Strong

Our financial risk profile assessment of very strong reflects strong financial performance, extremely strong debt and liabilities capacity, strong overall liquidity and financial flexibility, and financial policies we view as credit neutral. Our assessment considers audited 2023 results, estimated 2024 results, current toll revenue projections, and financing of FTE's rolling, multibillion-dollar CIP.

Financial performance remains resilient despite challenges beyond system's control

The financial losses resulting from the temporary suspension along certain toll segments following hurricane activity in recent years have not had a material effect on financial metrics, and annual revenue has proven resilient. The system did not experience significant storm-related damage from Hurricanes Ian or Idalia in 2022 and 2023, respectively, and remained fully operational. Fiscal 2024 transactions (unaudited) are up by 4% relative to fiscal 2023. In fiscal year-end 2024, toll revenue increased by approximately 14.8% relative to fiscal 2023, due in part to statutory indexing of tolls and positive traffic trends.

S&P Global Ratings-calculated fiscal 2023 metrics (latest audited) for the turnpike system are favorable, with DSC of about 2.8x. The temporary toll relief program, authorized by the legislature for calendar year 2023, did not have an effect on system revenue, given that FTE was reimbursed by the Florida Department of Transportation (facilitated through a general fund transfer) for account credits, which totaled approximately $207 million for the calendar year. The legislature approved legislation that provides toll relief from April 1, 2024, to March 31, 2025. Given that it is structured in the same fashion as the previous toll relief program, we do not expect it will have effect on the enterprise. However, should a future extension or modification of the program occur without dedicated external funding, as has been the case, it could result in a reassessment and weakening of our views of FTE's longer-term overall financial metrics.

By statute, the system is required to index-toll to the annual consumer price index (CPI) rates on existing system facilities and other department-owned toll facilities. SunPass and TOLL-BY-PLATE toll-rate adjustments are to occur no more frequently than annually and no less frequently than once every five years, while cash toll rates are to be adjusted every five years by the change in CPI over the previous five years and adjusted to the next-higher quarter. Following the state legislature's prohibition of toll-rate increases for fiscal 2023, SunPass, TOLL-BY-PLATE, and cash rates were indexed to the annual CPI of 8.0%, effective July 1, 2023. The latest toll revenue forecast incorporates the rate adjustment, though no other potential rate increases. To the extent future 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 revenue will likely exceed their initially forecast levels.

Based on unaudited estimates for fiscal 2024, we expect overall credit metrics to be in line with fiscal 2023, and well within their historical levels. The latest Traffic and Earnings Report assumes gross revenue will be flat in fiscal 2025 and up by about 2% in 2026. Overall, we anticipate transactions and revenue continuing the trend of strengthening and based on trends, though broader economic softness could partially mute growth.

Extremely strong debt and liability capacity and ample liquidity remain stable overall

FTE's debt capacity, in our view, is extremely strong, which we expect will continue despite the turnpike's additional borrowing plans. Its debt-to-EBIDA in fiscal 2023 is below 5x, and we expect it to remain near that level because of additional revenue from growth in the system and planned toll-rate increases, countering the turnpike's rising debt levels. In our assessment of FTE's strong liquidity and financial flexibility, we consider the turnpike's audited fiscal year-end 2023 unrestricted cash and investments balance equaling over 800 days' cash on hand, offset by the potential for the use of cash to fund the CIP. Our assessment nevertheless remains at strong.

Florida Turnpike Enterprise (FTE), Florida--Financial and operating data

	--Fiscal year ended June 30--					
	2023	2022	2021	2020	2019	Medians for 'AA' category toll roads 2023
Financial performance						
Total operating revenue ($000s)	1,179,419	1,153,380	1,012,039	995,849	1,078,094	738,774
Plus: interest income ($000s)	61,517	-42,442	(17,496)	62,212	56,978	--
Plus: other committed recurring revenue sources ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	--
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	410,728	398,507	451,320	418,076	389,025	202,338
Numerator for S&P Global Ratings' coverage calculation ($000s)	768,691	754,873	560,719	577,773	689,069	--
Total debt service ($000s)	277,061	267,930	261,013	256,613	261,863	--
Denominator for S&P Global Ratings' coverage calculation ($000s)	277,061	266,165	261,013	256,613	267,259	--
S&P Global Ratings-calculated coverage (x)	2.8	2.8	2.1	2.3	2.6	2.4
Coverage reported by the FTE* (x)	4.3	4.4	3.9	4.0	4.1	
Debt and liabilities						
Debt ($000s)	3,136,076	3,122,259	2,647,141	2,609,494	2,608,047	2,207,126
EBIDA ($000s)	768,691	754,873	560,719	577,773	689,069	--
S&P Global Ratings-calculated net revenue ($000s)	830,208	712,431	543,223	639,985	746,047	513,784
Debt to net revenue (x)	3.8	4.4	4.9	4.1	3.5	5.0
Debt to EBIDA (x)	4.1	4.1	4.7	4.5	3.8	5.1
Liquidity and financial flexibility						
Unrestricted cash and investments ($000s)	980,731	954,455	609,827	896,836	1,064,941	668,556
Available liquidity, net of contingent liabilities ($000s)	980,731	954,455	609,827	896,836	1,064,941	--
Unrestricted days' cash on hand	871.5	874.2	493.2	783.0	999.2	1,079
Available liquidity to debt (%)	31.3	30.6	23.0	34.4	40.8	17
Unrestricted days' cash on hand (excluding credit facilities)	871.5	874.2	493.2	783.0	999.2	--
Available liquidity to debt (%) (excluding credit facilities)	31.3	30.6	23.0	34.4	40.8	--

Florida Turnpike Enterprise (FTE), Florida--Financial and operating data (cont.)						
	--Fiscal year ended June 30--					
	2023	2022	2021	2020	2019	Medians for 'AA' category toll roads 2023
Operating metrics - toll road						
Total toll revenue ($000s)	1,120,923	1,099,797	969,862	956,260	1,052,357	
Toll transactions (000s)	1,284,965	1,138,036	861,062	860,569	931,730	184,505

*Reflects gross revenue annual debt service coverage (rounded) as reported in the series 2024D POS.
O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. S&P Global Ratings-calculated net revenue = (total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See "Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions" criteria for more S&P Global Ratings definitions and calculations. N.A.--Not available.

Related Research

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

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