

03 OCT 2024

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

Fitch Ratings - Chicago - 03 Oct 2024: Fitch Ratings has assigned a 'AA' rating to the Florida Department of Transportation's (FDOT) approximately \$114.4 million of series 2024D senior lien turnpike revenue 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 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 high debt service coverage and moderate leverage metrics despite FTE's substantial capital improvement program (CIP). The CIP has supported the continued expansion and maintenance of the turnpike and is currently expected to require \$3.6 billion in debt issuances through fiscal 2029. However, FTE's resilient financial profile mitigates concerns regarding future debt issuance with metrics remaining 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. Expansion of the system, coupled with sustained healthy demand, has resulted in resiliency and continued growth of the traffic base. 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. Its 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 increase 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 five-year work program (fiscal 2025 to fiscal 2029) totals approximately \$10.6 billion of projects, with roughly a third 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 unaudited fiscal 2024 debt service coverage ratio (DSCR) remained robust at 3.9x. DSCR is expected to remain strong with a 10-year average of 2.5x in Fitch's rating case. Net debt to cash flow available for debt service (leverage) peaks at 4.9x in fiscal 2029 under our rating case.

PEER GROUP

Maryland Transportation Authority (MDTA; AA/Stable) and Pennsylvania Turnpike Commission (PTC; AA- senior/A subordinate/Stable) are among FTE's most comparable 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 Fitch rating case DSCR to below 2.0x for a sustained period due to lower than anticipated revenue from decreased transactions or minimal toll increases.

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 \$114.4 million in series 2024D turnpike revenue bonds. Proceeds will fund various projects in the current capital plan and cover the cost of issuance. The bonds will be fixed rate, on parity with existing turnpike revenue bonds, and fully amortize through 2054.

SECURITY

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

Asset Description

The FTE, a division of 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. The system also includes the 18-mile Seminole Expressway, the 15-mile Veterans Expressway, the six-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 one-mile I-4 Connector, the 22-mile Beachline East Expressway, the 15-mile First Coast Expressway, and the three-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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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Florida Department of Transportation (FL) [Turnpike]			
<ul style="list-style-type: none"> Florida Department of Transportation (FL) /Toll Revenues - First Lien - Turnpike/1 LT 	LT	AA	Affirmed
			AA

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

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, v1.4.2 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Florida Department of Transportation (FL) EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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