

RatingsDirect®

Summary:

Florida Florida Turnpike Enterprise; Toll Roads Bridges

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Table Of Contents

Rationale

Outlook

Summary:

Florida

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Credit Profile

US\$137.34 mil tpk rev rfdg bnds (Florida Tpk Enterprise) ser 2016C due 07/01/2037

Long Term Rating

AA/Stable

New

Florida

Florida Tpk Enterprise, Florida

Florida (Florida Tpk Enterprise)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Rationale

S&P Global Ratings Services has assigned its 'AA' long-term rating to Florida's pro forma \$137.3 million series 2016C turnpike revenue refunding bonds, issued for the Florida Turnpike Enterprise (FTE). The outlook is stable. At the same time, S&P Global Ratings affirmed FTE's turnpike revenue bonds outstanding.

We believe credit strengths include the turnpike's:

- Very strong competitive position as a large, diverse, and mature system for the state that has exhibited generally good or stable traffic growth, except for traffic declines in fiscal years 2008 and 2009 due to the recession;
- Very strong total debt service coverage (DSC) that we expect to continue, despite additional borrowing plans, due to the system's high activity levels and annual indexing of tolls;
- Low toll costs of 7.0 cents per mile for two-axle vehicles paying tolls electronically; and
- Statutory safeguards requiring both adherence to specific environmental and economic feasibility tests before building expansion projects, and compliance with additional bonds tests.

About \$1.4 billion of additional debt planned through fiscal 2021 (year ending June 30) to fund capital improvements, which could pressure DSC levels, somewhat offset these strengths.

Bond proceeds will refund a portion of the Florida Department of Transportation's (FDOT) series 2008A turnpike revenue bonds outstanding and pay costs of issuance.

A pledge of the system's net revenues after operation and maintenance (O&M) expenses backs the bonds. The FDOT, however, has covenanted to pay the FTE's O&M expenses from the State Transportation Trust Fund (STTF), with the turnpike reimbursing the FDOT from funds in the enterprise's general fund after paying debt service. In the event of a shortfall, the FTE must take actions (including deferring projects and increasing tolls) to increase available revenues. If these actions impair the bonds' security or the system's integrity, the reimbursement obligation would become a debt of the turnpike system to the STTF, payable from the FTE's general reserve fund.

The system consists of several components. The principal one, the 320-mile Mainline (which represented about 71% of fiscal 2016 gross toll revenues), 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 five different subcomponents: the Homestead Extension of Florida's Turnpike, the Southern Coin System, the Ticket System, the Northern Coin System, and the Beachline West Expressway. The system also includes:

- The 18-mile Seminole Expressway in Seminole County;
- The 15-mile Veterans Expressway in Hillsborough County;
- The six-mile Southern Connector Extension in Orange and Osceola counties;
- The 25-mile Polk Parkway in Polk County;
- the 42-mile Suncoast Parkway in Hillsborough, Pasco, and Hernando counties;
- The 23-mile Sawgrass Expressway in Broward County;
- The 11-mile Western Beltway (Part C) in Orange and Osceola counties;
- The one-mile Interstate 4 (I-4) Connector in Hillsborough County; and
- The 22-mile Beachline East Expressway in Orange and Brevard counties that the system acquired July 1, 2014.

We believe bondholders benefit from a large and diverse system, which serves 17 of Florida's 67 counties, representing over 61% of the state's total population. As a result, large portions of the system function as a congestion reliever. However, the Beachline West, Western Beltway (Part C), and Southern Connector Extension serve more tourist and recreational areas, providing access to Disney World and other area attractions. For fiscal 2016, system toll revenues and transactions totaled roughly \$955.9 million and 833.8 million, respectively.

For fiscal 2016, passenger cars accounted for about 96% of total system traffic and 85% of toll revenues; and electronic tolls accounted for about 81% of toll revenue. Turnpike system transactions increased an average of 9.5% a year from fiscal years 1999 through 2007, which we consider strong. However, transactions fell 3.4% and 5.5% in fiscal years 2008 and 2009, respectively. With improving economic conditions, total transactions increased 1.4% in fiscal 2010, 2.1% in fiscal 2011, and 1.7% in fiscal 2012, before declining slightly (0.2%) in fiscal 2013. For fiscal years 2014-2016, total transactions increased 4.1%, 11.2%, and 8.6%, respectively, due to growth in transactions system wide, the I-4 Connector (opening in January 2014), and the Beachline acquisition.

Toll revenues fell 4.3% and 7.1% in fiscal years 2008 and 2009, respectively, in concert with the fall in traffic, but then rebounded to \$755.5 million in fiscal 2013 after increasing 1.0%, 0.7%, 1.5%, and 24.1% in fiscal years 2010, 2011, 2012, and 2013, respectively. For fiscal years 2014-2016, toll revenues increased 5.4%, 8.7%, 10.4%, respectively, due to growth in toll transactions on the system and annual indexing of toll rates that took effect on July 1, 2013 (2.1%), 2014 (1.5%), and 2015 (1.6%), a full year of revenues for the I-4 Connector, and Beachline acquisition. Because of a negligible change in CPI there was no indexing of toll rates on July 1, 2016.

The turnpike has a liquidity position we consider very strong, which could fall to levels we consider strong because of funding CIP project costs. From fiscal years 2013 through 2016, unrestricted cash year-end balances ranged from \$679.3 million-\$997.9 million, providing 1,036-1,417 days' worth of operating expenses before depreciation on hand. As of Oct. 31, 2016, management reports the system's unaudited unrestricted cash balance totaled approximately \$856.8 million. We attribute the strong increases to higher operating revenues (from growth in customer transactions and indexing of toll rates), reduced operating expenses (mostly because of reduced renewal or replacement outlays),

an increase in investment earnings, and reduced interest costs (due to bond refunding transactions). Turnpike financial projections show its cash reserves falling because of funding a portion of its CIP project costs. We understand that management would not allow the system's cash position to drop lower than \$300 million, a level we consider strong.

Because of annual rate increases and strong growth in system transactions following the commencement toll collection operations for the I-4 connector (in January 2014) and the Beachline acquisition (on July 1, 2014), the FTE's total DSC (S&P Global Ratings-calculated), based on audited results, has been consistently strong, exceeding 2x from fiscal years 2013-2016. It exceeded the system's debt management guideline of maintaining 1.5x DSC based on net revenues. Total DSC (S&P Global Ratings-calculated) at fiscal year-end 2016 is roughly 2.7x. Total DSC (S&P Global Ratings-calculated) based on fiscal 2017 forecast figures is nearly 2x, a level we consider strong. We expect FTE's total DSC to remain strong, near or above 2x. We base our DSC calculations for fiscal years 2013-2016 on GAAP-reported figures, excluding the Build America Bonds (BAB) subsidy. Because the system uses the modified approach to reporting depreciation of infrastructure assets, it includes renewals and replacement costs as a part of its operating expenses. Excluding these, total DSC for fiscal years 2013-2016 has been no lower than roughly 2.4x, and nearly 2.2x based on fiscal 2017 forecast figures.

The FTE has about \$2.75 billion in total debt (of which \$2.71 billion is senior debt), which is a debt burden we consider manageable for a system of this size. The current-year and tentative five-year work plan (fiscal years 2017 through 2021) include \$4.6 billion of capital project costs and requiring \$1.4 billion of additional debt issues. Total DSC (S&P Global Ratings-calculated), based on forecast fiscal 2017-2021 figures from the system's corresponding tentative finance plan, is no lower than about 1.9x. These coverage values exclude annual BAB subsidy payments of \$5.5 million. Excluding renewal and replacement costs as operating expenses, total DSC is no lower than about 2x. The plan assumes index tolling (adjusting for CPI each year) and debt issues each year, which together total about \$1.4 billion. We expect management will defer capital projects or increase tolls beyond indexing to maintain the system's strong financial flexibility should revenue and transaction levels fall materially below forecast. The plan assumes annual traffic transactions increasing 2.2% in fiscal 2016, 3.0% in fiscal 2017, 4.7% in fiscal 2018, and 2.5% to 2.9% annual growth for fiscal years 2019 through 2021. We believe this is achievable with actual traffic increasing 8.6% for fiscal 2016.

The FTE's strong financial profile is due, in part, to increasing rates. More specifically, in each of July 2013, 2014, and 2015 the system increased SunPass and toll-by-plate rates 2.1%, 1.5%, and 1.6%, respectively, reflecting inflationary increases based on CPI. Before this, in June 2012, it increased cash toll and toll-by-plate rates by 11.7%, reflecting the change in CPI in the previous five years. The toll hike relates to a state law enacted in 2007 that directs the turnpike and other FDOT-owned toll facilities to index toll rates on existing facilities to inflation. The FTE's tolling index plan includes increasing SunPass and toll-by-plate toll rates by CPI each year, while increasing cash tolls every five. We expect this tolling plan will, in part, allow the turnpike to maintain very strong DSC. The cost per mile on the mainline for two-axle vehicles is approximately 7.0 cents for SunPass customers. The next electronic toll rate increase (based on CPI) is scheduled for July 1, 2017, which is also when the next increase to cash toll rates will occur. Cash toll rates are indexed every five years to CPI.

Outlook

The stable outlook reflects our expectation that management will adjust rates and capital spending to ensure very strong total DSC and a strong liquidity position during our two-year outlook horizon.

Upside scenario

Although unlikely, we could raise the rating in the next two years if the total DSC significantly improves, liquidity remains very strong, and we believe each are sustainable, despite the FTE's borrowing plans.

Downside scenario

We could lower the ratings in the next two years if total DSC materially erodes or if the system's liquidity position falls to levels lower than we expect.

Ratings Detail (As Of November 10, 2016)		
Florida		
Florida Tpk Enterprise, Florida		
Florida (Florida Turnpike Enterprise)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Florida (Florida Turnpike Enterprise)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Florida (Florida Tpk Enterprise)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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