

FITCH RATES FLORIDA TURNPIKE ENTERPRISE'S REV REFUNDING BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-10 November 2017: Fitch Ratings has assigned a 'AA' rating to the Florida Department of Transportation's (FDOT) \$138.2 million turnpike revenue refunding bonds, series 2017A. The Rating Outlook is Stable.

KEY RATING DRIVERS

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 incorporates the turnpike's substantial capital improvement program, which has supported continued expansion and maintenance of the turnpike but is expected to be supported by additional debt issuances totalling approximately \$3.7 billion through fiscal 2026. FTE's resilient financial profile mitigates concern regarding future debt issuance and remains commensurate with its 'AA' rating.

Strategically Important Turnpike System - Revenue Risk (Volume): 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. The turnpike has also benefitted from minimal elasticity 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 legal framework exists in order 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. Political opposition to tolling is not currently considered a material concern.

Manageable Work Program - Infrastructure Development/Renewal: Stronger
The turnpike's six-year proposed work program totals roughly \$6.5 billion, about 22% of which is expected to be supported by additional borrowings. Debt issuances are expected to comprise roughly 30% of capital and maintenance costs over a 10-year period. The plan consists of both maintenance and expansionary works; several lane widening projects are expected to be completed over the next two years which will continue to enhance the turnpike's capacity. The turnpike system is in good condition overall, and its asset condition monitoring regime is considered robust.

Conservative Debt Portfolio - Debt Structure: Stronger
The turnpike's debt structure is fairly conservative, featuring all senior, fully amortizing fixed-rate debt. Outstanding debt is limited by a bond cap of \$10 billion. Outstanding bonded debt as well as pro forma debt are expected to remain comfortably within the limit, increasing from roughly 30% to 50% of the limit by fiscal year-end 2026. Positively, FTE's current debt service profile declines through final maturity in 2045, and is expected to continue to decline as additional debt comes online, though final maturity will be extended to 2056.

Financial Profile

FTE benefits from a strong financial profile, which is expected to remain consistent with the current rating level even as sizable capital program-related debt issuances come on line over the next 10 years. FTE's fiscal 2016 debt service coverage ratio (DSCR) was robust at above 3x and is expected to remain strong at a 10-year rating-case average of 2.6x. Leverage was low at roughly 2x in fiscal 2016 and is expected to remain manageable at a stabilized level of roughly 2.8x in Fitch's rating case.

PEER GROUP

Maryland Transportation Authority (MdTA, rated 'AA-/Positive Outlook) and Pennsylvania Turnpike Commission (PTC, rated 'A+' senior/'A-' subordinate/Stable Outlook) 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. While there is currently a one-notch differential between MdTA and FTE, continued positive traffic trends and additional certainty on tolling policies could result in a rating upgrade of MdTA, bringing its rating in line with FTE's rating. Conversely, PTC's higher debt burden results in higher leverage on both liens, explaining PTC's lower ratings.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--A substantial increase in additional debt and an inability to actively control operating, maintenance, or capital expenses which brings stabilized leverage above 5x would reflect a weakened credit profile.

--Erosion of DSCR below 2.25x for a sustained period due to lower than anticipated revenues from decreased transactions or minimal toll increases would put pressure on the rating.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

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

TRANSACTION SUMMARY

The Florida Department of Transportation expects to issue \$138.2 million of Florida Turnpike revenue refunding bonds series 2017A to refund the outstanding series 2008A and 2010A bonds and pay cost of issuance. The current refunding bonds do not extend maturity.

For more information related to the credit, please see 'Fitch Affirms Florida Turnpike Enterprise's Rev Bonds at 'AA'; Outlook Stable' dated March 15, 2017 and available at www.fitchratings.com.

SECURITY

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

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance - Effective from 8 July 2016 to 24 August 2016 (pub. 08 Jul 2016)

<https://www.fitchratings.com/site/re/882594>

Rating Criteria for Toll Roads, Bridges and Tunnels — Effective Aug. 11, 2016– Aug. 3, 2017 (pub. 11 Aug 2016)

<https://www.fitchratings.com/site/re/886038>

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