



Rating Action: Moody's assigns Aa2 to Florida Department of Transportation's Series 2018A Turnpike Revenue Bonds; Outlook is stable

25 Oct 2018

New York, October 25, 2018 -- Moody's Investors Service ("Moody's") has assigned a rating of Aa2 to Florida Department of Transportation's (FDOT) \$316.4 million senior lien Turnpike Revenue Bonds, Series 2018A. The rating outlook is stable.

RATINGS RATIONALE

The rating is based on strong traffic and revenue performance, annual indexed toll increases and sustained strong key financial metrics. The turnpike will have approximately \$2.771 billion parity debt outstanding.

The Aa2 rating and stable outlook reflect the turnpike's well-established multi-asset, statewide system that has a long history of effective tolling operations, strong financial metrics supported by indexed toll rate increases and a prudent approach to financial and asset management and capital borrowing. The turnpike's existing debt profile is descending and has no variable rate debt or derivatives exposure. Debt service coverage ratios (DSCRs) are forecasted to remain above 2.0x under a reasonably conservative base case scenario as well as in most years under stress scenarios assuming lower revenue growth rates of 2% and 1%. All scenarios include the anticipated issuance of \$1.48 billion in additional parity debt through 2023 after the sale of the 2018A bonds. The turnpike's prudent fiscal policies and rational capital planning practices continue to sustain the turnpike's long track record of healthy financial operations, despite steady annual debt issuance to support the \$5 billion capital improvement program (CIP) through fiscal 2023. The CIP is mostly geared to capacity expansion and system preservation.

The rating also considers the relative inelasticity of demand experienced in fiscal 2013 following a sizeable toll rate increase implemented in June 2012, and indexed increases in fiscal 2014, 2015, 2016 and 2018. The low elasticity reflects the strategically vital role the turnpike plays in Florida's service-oriented economy. The covenant by FDOT to pay the turnpike's annual operating and maintenance (O&M) expenses on a reimbursable basis is credit positive as it provides a gross revenue pledge to bondholders. However, we note that the turnpike is self-supporting and has not relied on the FDOT to pay any of its O&M.

RATING OUTLOOK

The stable outlook reflects Moody's view that the turnpike's fundamental strengths and improving Florida economic outlook coupled with an inflation index based tolling policy will support strong financial metrics and maintenance of strong liquidity going forward.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Though currently at the highest rating level for a toll road enterprise, sustained traffic and revenue growth that produced net revenue DSCRs above 3.0x and debt levels below 4.0x operating revenues could exert upward pressure
- Successful delivery of the multiple capital projects with planned debt in the near term without a weakening of DSCRs

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Declines in traffic and revenues combined with additional debt issuance that reduces total (senior and subordinate) net revenue debt service coverage below 2.0x
- Liquidity levels below 400 days cash on hand
- Delays in or failure to implement timely toll increases as planned

LEGAL SECURITY

The revenue bonds are secured by a senior lien on the net revenues of the state's multi-component system and the debt service reserve fund (DSRF) balances. The turnpike's DSRF is required to be funded at the lesser of 125% of average annual debt service, maximum annual debt service, or 10% of original bond principal. The turnpike has cash-funded the requirement (now at \$169.4 million) given its surety providers are rated below investment grade, but a total of \$190.9 million in sureties remain.

The rate covenant and additional bonds test is 1.2x annual senior lien debt service and 1.0x all other payments required under the resolution. Pursuant to legislation adopted in 1997, the FDOT covenanted on August 21, 1997, to pay all costs of operation and maintenance of the turnpike system from the State Transportation Trust Fund (STTF), in effect making 100% of the turnpike system gross revenues available for debt service. The costs of operation and maintenance paid from the STTF are to be reimbursed from the turnpike general reserve fund only after provision has been made for payment of debt service and other amounts required for the outstanding turnpike revenue bonds. The STTF is funded with transportation related taxes, fees, fines, surcharges including motor fuel and license taxes, and federal aid (15% reserved for public transportation projects). According to the Florida Turnpike Enterprise Law, new turnpike expansion projects must pass a statutory test for economic feasibility: Project estimated net revenues must pay 50% of project debt service on bonds by the end of the 12th year since the project opened and 100% by the 30th year.

USE OF PROCEEDS

The Series 2018A bonds will be used to finance a portion of the CIP, and to pay costs of issuance. Projects funded with these bonds include widening of the Veterans Expressway, including express lanes; construction of the First Coast Expressway, a new toll road near Jacksonville; widening of SR-821 from SW 216th Street to Killian, including express lanes; widening of SR-821 from Killian to SR-836, including express lanes; and construction of Suncoast Parkway II, an extension of the existing Suncoast Parkway in Hernando County and Citrus County.

PROFILE

The Florida Turnpike is a large, multi-asset toll system that traverses the most populous areas of the state and consists of several components totaling 483 miles, with an additional 28 miles currently under construction. The principal component is the 320-mile Mainline that extends in a north-south direction from I-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.

In addition to the Mainline, the system operates the 18-mile Seminole Expressway in Seminole County, the 15-mile Veterans Expressway in Hillsborough County, the 6-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 I-4 Connector in Hillsborough County, and the 22 mile Beachline East Expressway.

The turnpike is a state enterprise managed by the FDOT whose debt is approved and issued by the state Division of Bond Finance. A portion of the system was constructed and managed by the State Turnpike Authority created in 1953 which was taken over by the FDOT in 1969. In 2002 the turnpike district of FDOT reorganized into Florida's Turnpike Enterprise.

METHODOLOGY

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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