

Florida
Florida Turnpike Enterprise; Airport;
Toll Roads Bridges

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Credit Profile

US\$316.43 mil tpk rev bnds (Florida Turnpike Enterprise) ser 2018A due 07/01/2048

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Florida's pro forma \$316.4 million series 2018A turnpike revenue bonds, issued for the Florida Turnpike Enterprise (FTE or the turnpike). At the same time, S&P Global Ratings has affirmed its 'AA' long-term and underlying ratings on the FTE's turnpike revenue bonds outstanding, using its "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" criteria. The outlook is stable.

The ratings reflect the combination of the turnpike's very strong enterprise risk profile and very strong financial risk profile as well as our opinion that the FTE serves one of the most populous states that is expected to have above-average population growth that we believe will support generally favorable traffic trends and financial performance. Our enterprise risk profile assessment incorporates the FTE's favorable traffic trends due to its important role, strategic location, and lack of significant competition from toll-free roads. Our financial risk profile assessment considers the FTE's good revenue growth from periodic toll rate increases and favorable traffic trends that we expect will continue. This will allow the turnpike to maintain strong financial performance and an extremely strong capacity to manage rising debt levels from debt-financing its rolling, multi-billion-dollar capital improvement program (CIP).

The enterprise risk profile reflects our view of the FTE's:

- Very strong market position due to the turnpike's resilient demand characteristics given its important role in facilitating intrastate and interstate commerce and its strategic location, and lack of significant competition;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and
- Extremely strong management and governance, reflecting the turnpike's history of meeting or exceeding most operational and financial goals; detailed financial forecasts that management updates frequently to address material variances; and a very capable staff that has considerable experience operating a statewide tolling agency.

The financial risk profile reflects our view of the FTE's:

- Strong financial performance that we expect will continue due to the turnpike's history of good revenue growth from the turnpike's favorable traffic trends and willingness and ability to increase toll rates when necessary that, in our

view, will allow the FTE to maintain total debt service coverage (DSC; S&P Global Ratings-calculated) at strong levels, despite rising debt service requirements from sizable additional borrowing plans in the near term;

- Extremely strong debt and liabilities capacity that we expect will continue because of the turnpike countering rising debt levels with additional revenue from continued transaction growth and toll increases, ensuring that its capacity to service debt will not diminish; and
- Liquidity and financial flexibility that we expect will remain at least strong as the FTE draws down current cash reserve levels to fund portions of its capital plan.

A pledge of the system's net revenues after operation and maintenance (O&M) expenses secures 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. In addition, statutory safeguards require both adherence to specific environmental and economic feasibility tests before building expansion projects, and compliance with additional bonds tests (1.20x) and rate covenant (1.20x). Post-issuance, the FTE will have approximately \$2.8 billion of revenue debt outstanding.

Bond proceeds will fund capital improvements of the turnpike system and pay costs of issuance.

The system consists of several components. The principal one, the 320-mile Mainline (which represented about 70% of fiscal 2017 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

We believe bondholders benefit from the large and diverse system, which serves 17 of Florida's 67 counties, representing more than 60% of the state's population. 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.

Outlook

The stable outlook reflects our opinion that the FTE will maintain total DSC (S&P Global Ratings-calculated) at levels we consider strong and its financial capacity to manage its rising debt burden will not diminish.

Upside scenario

We do not expect to raise the ratings during the next two years, due to the FTE's sizable additional debt plans and our opinion that its market position will remain unchanged.

Downside scenario

We could lower the ratings in the next two years if we believe transaction and revenue growth are materially lower than forecast, resulting total DSC and debt capacity below our current assessments.

Enterprise Risk Profile

Our assessment of the FTE's enterprise risk profile as very strong reflects the turnpike's extremely strong economic fundamentals, low industry risk, very strong market position, and extremely strong management and governance.

Economic fundamentals

The primary service area, the state of Florida, has extremely strong economic fundamentals due to favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and average unemployment levels.

Florida, the third-most populous state, benefits from what we view as a diverse statewide economy. Its economy continues to outperform that of the nation with good population growth and positive net migration. The state estimates that it gained 340,000 residents in fiscal 2018 including an estimated 53,000 residents displaced from Puerto Rico after Hurricane Maria and who are expected to stay in Florida. Job growth in the state continues to outpace that of the nation. May 2018 employment reflected broad-based growth across most sectors, particularly supported by construction employment as well as professional and business services and leisure and hospitality payrolls. However, projecting moderating growth compared with recent trends, IHS Markit forecasts Florida's employment will continue to post higher-than-national growth at 2.4% and 2.1% in calendar years 2018 and 2019, respectively. The preliminary unemployment rate for May 2018 remained 3.8%, in line with that of the nation, even after incorporating consistent overall labor market growth.

Market position

We consider the turnpike's overall market position as very strong, reflecting a large and mature statewide system and a key provider of transportation infrastructure in Florida, serving both interstate and intrastate commercial and passenger traffic. The turnpike lacks significant competition from toll-free roads and has a strategic location.

Because of the system's important role and strategic location, the turnpike has had resilient and generally favorable traffic trends. From 2007-2016, a period that included the Great Recession, a spike in fuel prices, and frequent rate

increases, FTE traffic levels were relatively resilient, with an average annual growth rate of 2.9%. More recently, in fiscal 2017, 872.9 million vehicles traveled the system, a record for volume. Traffic volume in fiscal 2017 (year ended June 30) was up 4.7% from fiscal 2016, and fiscal 2016 traffic increased 8.6%. Passenger cars account for about 85% of toll revenue. Toll revenue in fiscal 2017 also reached a peak of \$1.0 billion, or up 5.5% from fiscal 2016.

Management and governance

The turnpike's management and governance, in our view, is extremely strong, reflecting our view of the FTE's strategic positioning; risk management and financial management; and organizational effectiveness. 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, management 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 the FTE's operations.

Financial Risk Profile

Our assessment of the FTE's financial risk profile as strong incorporates the turnpike's strong financial performance, extremely strong debt and liabilities capacity, and strong liquidity and financial flexibility. We base our financial profile risk profile assessment on historical figures, which reflect our expectation that key financial metrics will continue near current levels. In our analysis, we evaluated the FTE's updated detailed financial plan that we believe includes reasonable assumptions, and yield results (S&P Global Ratings-calculated) comparable with historical ones. Our financial profile assessment also considered the turnpike's financial policies, which we consider credit neutral.

As a result of the most recent traffic and revenue study by the turnpike's consultant, in September 2018, total adjusted gross toll revenue is estimated to increase to \$1.5 billion by fiscal 2029 from \$1.0 billion in fiscal 2017, or 3.2% annualized growth, due to a combination of transaction growth and rate increases. The plan assumes annual index tolling (adjusting for CPI each year) and debt issues, which together total about \$1.5 billion. We expect management will defer capital projects or increase tolls beyond indexing to maintain the system's strong, in our view, financial flexibility should revenue and transaction levels trend materially below forecast. The plan assumes annual traffic transactions will increase 3.7% in fiscal 2018, followed by 1.1%-3.4% annual growth in fiscal years 2019 through 2029. We believe this is achievable, with actual traffic increasing 4.7% in fiscal 2017.

Financial performance

We view the FTE's financial performance as strong, which we expect to continue. The assessment incorporates our expectation that the turnpike will maintain total DSC, as per our calculations, at levels we consider strong, due to the FTE's resilient and generally favorable traffic trends as well as its demonstrated willingness and ability to raise tolls as necessary to meet or exceed projections.

From 2007 to 2017, a period that included the Great Recession, a spike in fuel prices, and rate increases, FTE toll revenues grew substantially to \$1.0 billion in 2017 from \$664 million in 2007, with an average annual growth rate of 4.6%.

Because of annual rate increases and strong growth in system transactions following the commencement of toll collections for the I-4 connector and the Beachline acquisition, the FTE's total DSC (S&P Global Ratings-calculated), based on audited results, has been consistently strong, in our view, exceeding 2x between fiscal years 2013-2017. It exceeded the system's debt management guideline of maintaining 1.5x DSC based on net revenues. At fiscal year-end 2017, total DSC (S&P Global Ratings-calculated) was 2.74x. We base our DSC calculations for fiscal years 2013-2017 on generally acceptable accounting principles-reported figures, excluding the Build America Bonds 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, which is consistent with the legal pledge, total DSC for fiscal years 2013-2017 has been no lower than 2.4x, and about 3.3x based on fiscal 2018 unaudited figures. We expect the FTE's total DSC to remain strong, inclusive of its sizable additional borrowing plans in the near term.

The FTE's strong financial profile is partially due to increasing rates. 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. More recently, in October 2017, SunPass and toll-by-plate rates were increased by 1.3% as well as 6.6% in the cash rate. Before this, in June 2012, the system increased cash toll and toll-by-plate rates 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 rates by CPI each year, while increasing cash tolls every five. We expect this plan will partially allow the turnpike to maintain what we view as strong DSC. The cost per mile on the mainline for two-axle vehicles is approximately 7 cents for SunPass customers.

For the FTE to maintain DSC (S&P Global Ratings-calculated) at forecast levels, it will require continued growth in fare revenue due to toll increases and growth in traffic, which we believe is attainable given the turnpike's demonstrated ability and willingness to increase tolls and generally favorable traffic trends.

Debt and liabilities capacity

The FTE's debt capacity, in our view, is extremely strong, which we expect will continue despite the turnpike's additional borrowing plans. The FTE's debt to net revenues in fiscal 2017 is 3.9x, and we expect it to remain at or near 5x because of additional revenue from growth in the system and planned toll rate increases, countering the turnpike's rising debt levels. The FTE's five-year CIP totals about \$5.8 billion. From fiscal years 2019-2023, we expect the turnpike to issue about \$1.5 billion in debt.

Liquidity and financial flexibility

In our assessment of the FTE's strong liquidity and financial flexibility, we consider the turnpike's audited fiscal year-end 2017 (June 30) unrestricted cash and investments balance of nearly \$965 million (1,095 days' cash on hand and 34.5% of debt). However, we expect FTE's liquidity will fall to levels that we consider at least strong due to funding capital improvement plan (CIP) project costs.

Ratings Detail (As Of October 29, 2018)		
Florida		
Florida Tpk Enterprise, Florida		
Florida (Florida Turnpike Enterprise)		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of October 29, 2018) (cont.)

Florida (Florida Turnpike Enterprise)

Long Term Rating

AA/Stable

Affirmed

Florida (Florida Tpk Enterprise)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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