

# RatingsDirect®

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**Summary:**

## Florida Florida Turnpike Enterprise; Toll Roads Bridges

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## Credit Profile

US\$224.17 mil tpk rev rfdg bnds (Florida Turnpike Enterprise) ser 2019A due 07/01/2039

*Long Term Rating*

AA/Stable

New

## Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Florida's pro forma \$224.17 million series 2019A turnpike revenue refunding bonds, issued for the Florida Turnpike Enterprise (FTE or the turnpike). The outlook is stable.

The series 2019A bond proceeds will refund series 2009B Build America Bonds (Federally Taxable-Issuer Subsidy) outstanding, fund a reserve account, if necessary, and pay issuance costs. The refunding is for debt service savings without extending maturities.

The rating reflects our assessment of the combination of the turnpike's very strong enterprise risk profile and very strong financial risk profile. The rating also reflects our opinion that the FTE serves one of the most-populous states that expects 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 Florida Department of Transportation (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 \$2.7 billion of revenue bonds outstanding.

The system consists of several components. The principal one, the 320-mile Mainline (which accounts for about 70% of FTE's system 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 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.

Our evaluation of the FTE's fiscal 2018 audited results are consistent with our expectations with coverage of 2.7x (S&P Global Ratings-calculated), debt to net revenues of about 3.5x, and a fiscal year-ending unrestricted cash and investments balance of approximately \$845 million, equating to about 896 days' cash on hand and 34% of debt outstanding. Fiscal 2018 toll revenues totaled nearly \$1.02 billion, up about 0.9% from fiscal 2017. The increase was attributable to toll indexing, coupled with a 3.7% increase in toll transactions to approximately 906 million on the turnpike system, offset by about \$44 million of toll suspensions, in response to Hurricane Irma, which made landfall in Florida on Sep. 10, 2017. We are not expecting any financial effects from Hurricane Michael, which made landfall in Florida on Oct. 10, 2018, since FTE has no assets in the Florida Panhandle.

In June 2018, toll-collection processing for the enterprise's SunPass system was transferred to a new third-party vendor--Conduent State & Local Solutions, Inc. During this transition Conduent experienced unexpected toll-processing issues, which resulted in a larger than anticipated backlog of unprocessed transactions and a longer than expected delay in processing the backlog. By September 2018, the backlog was eliminated. However, there remain uncollected revenues of approximately \$74 million, consisting of \$30 million debited for SunPass accounts that do not use the auto-replenish feature and an uncollected balance of \$44 million for TOLL-BY-PLATE transactions that were not billed. There has been a temporary waiver of approximately \$17 million of TOLL-BY-PLATE administrative charges. The FTE is working on a plan to bill for the existing TOLL-BY-PLATE transaction costs and to collect amounts still owing on SunPass accounts. We consider the FTE's waiver of TOLL-BY-PLATE administrative charges, the delay in processing TOLL-BY-PLATE transactions, and delayed billing of SunPass accounts that do not use the auto-replenish feature, temporary and not a material credit risk.

A debt service reserve funded by cash and U.S. Treasury investments equal to 125% of average annual debt service provides additional liquidity to the series 2019A refunding bonds. However, the FTE is seeking to amend the debt service reserve requirement definition, allowing it to issue bonds without a debt service reserve account or reduce the debt service reserve requirement to zero for existing bonds, upon receipt of written bondholder consent of more than 50% of the principal amount of the bonds then outstanding. We do not believe this to have a material effect on the credit quality of the FTE, given our expectation that coverage and liquidity will remain at relatively high levels. To the extent that these metrics weaken materially, lack of a debt service reserve could cause downward rating pressure.

For additional information regarding our rating and outlook, please see the full analysis, published Oct. 29, 2018, on RatingsDirect.

## **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 rating during the next two years, due to the FTE's sizable additional debt plans and our opinion that its market position will not change.

**Downside scenario**

We could lower the rating in the next two years, if we believe transaction and revenue growth are materially lower than forecast, leading to weaker total DSC and debt capacity.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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