



## Fitch Rates Central Florida Expressway Auth's Senior Revenue Bonds 'A'; Outlook Stable

Fitch Ratings-New York-09 September 2016: Fitch Ratings has assigned an 'A' rating to Central Florida Expressway Authority's (CFX) approximately \$452 million series 2016B senior lien refunding revenue bonds. The Rating Outlook is Stable.

The rating reflects the essentiality of the CFX system to commuters in the Orlando area, coupled with a demonstrated willingness and ability to implement toll increases even during challenging economic times. The rating also reflects the system's robust operating and financial performance over the last year and maintenance of solid internal liquidity. The authority's sizeable capital plan will likely require additional borrowing, acting as somewhat of a constraint on the ratings. Nevertheless, CFX's strong track record in delivering capital projects indicates the plan is manageable.

### KEY RATING DRIVERS

**Established Road System (Revenue Risk: Volume - Stronger):** CFX's roadway system is a critical component of the Orlando area's transportation network, supporting a largely commuter traffic base. Recent legislation creating the new agency (formerly OOCEA) expands the authority's jurisdiction to include Orange, Seminole, Lake, and Osceola Counties, providing a broader traffic base while also allowing for greater operating efficiencies. Fitch views current toll rates as moderate and considers CFX to have reasonable ratemaking flexibility.

**Proven Ability to Manage Tolls (Revenue Risk: Price - Stronger):** CFX successfully implemented toll increases through the recent recession and, furthermore, implemented its first planned CPI-linked toll increase in July 2012 with limited impact on traffic. The board's approval of future CPI-linked increases at regular five-year intervals, with the next increase slated for fiscal 2018 (fiscal year ends June 30), is considered a positive.

**Good Asset Condition, Manageable Plan (Infrastructure Development & Renewal - Stronger):** CFX has maintained its facilities to a high standard, with robust historical financial performance supporting a sizable portion of pay-as-you-go and debt-funded capital investment. CFX's current \$1.3 billion, five-year capital program is considerable, with 23.7% portion of funds going to the Wekiva Parkway project. However, the authority has a proven track record of delivering capital improvements, having recently completed the John Land Apopka Expressway and several capacity improvement projects. Recent decision to fully repay authority's subordinate obligation to Florida Department of Transportation (FDOT) will offer increased flexibility to issue future debt as debt restrictions associated with the lease purchase related payment will be eliminated upon full repayment.

**Some Exposure to Sureties, Swaps (Debt Structure: Senior/Sub - Midrange/Midrange):** CFX's senior debt is currently 81.6% fixed rate, with the remainder in synthetically fixed mode. Currently, the majority of debt service reserve requirements are met with surety policies, with \$162 million in the form of surety backing versus \$58.7 million cash funded. The authority has also established a \$160 million cash reserve for debt management. The fixed rate, fully amortizing TIFIA loan does not feature a 'springing lien' mechanism, ensuring that it remains fully-subordinated to senior debt in all circumstances.

### Financial Metrics

**Relatively High Leverage:** The system carries relatively high leverage, with net debt to cash flow available for debt service (CFADS) expected to remain no lower than around 6.0x over the next five years in the Fitch base case and around 7.0x in the Fitch rating case, reflecting CFX's high capital needs. The senior DSCR averages 2.04x on the senior lien and 1.99x on the junior lien in the Fitch base case, and 1.69x and 1.65x respectively in the Fitch rating case. Fitch's breakeven analysis suggests that CFX has very little dependence on revenue growth in order to meet debt service based on its existing operating and financial profile.

**Peers Analysis:** Comparable peers include other large expressway systems such as Miami Dade Expressway (MDX; 'A'/Outlook Stable) and Harris County Toll Road Authority (HCTRA; 'AA'/Outlook Stable). Both MDX and CFX service large, growing service areas in Florida and have experienced significant expansion over recent years. Leverage on both systems is relatively elevated, commensurate with their ratings. HCTRA's higher rating reflects its significantly lower leverage, higher revenue and higher coverage.

### RATING SENSITIVITIES

**Negative:** Volatile traffic in light of deteriorating economic conditions or in response to toll increases, increasing political pushback against the implementation of timely toll increases, higher than expected expense or capital program costs resulting in erosion of the debt service coverage ratio materially below 1.6x for a sustained period could lead to negative rating action.

Positive: Given the sizable capital program and expected future borrowing levels, upward rating action is unlikely in the near term. Nevertheless, sustained coverage above 2x and material deleveraging could result in an upgrade.

#### TRANSACTION SUMMARY

CFX currently plans to issue approximately \$451.5 million of series 2016B revenue bonds in order to advance refund a portion of CFX's outstanding series 2007A, 2010A&B, 2010C and, to potentially current refund a portion of 2013C bonds. The transaction is estimated to provide CFX with net present value savings of \$37.1 million (7.4% of refunded par). The 2016B&C bonds are expected to be fixed rate, on parity with existing senior revenue bonds, and are not expected to extend the maturity of the refunded bonds. The debt service reserve will be funded with a combination of cash and surety from the refunded bonds.

Transactions and toll revenue across CFX's system increased by 11.4% and 10.3% in fiscal 2016 (ending June 30), respectively. This growth has been largely spurred by continuing land development across the metropolitan area, as well as the strong local economy supported in part by its robust tourism sector. Traffic has also been induced on the system by continuing expansion, most notably from a new connection with the Florida Turnpike. CFX last implemented a programmatic CPI-linked toll increase in 2012 and is not expected to implement another such increase until fiscal 2018. Operating costs (excluding FDOT advances) in fiscal 2016 were up 6.2% over the prior year reflecting the authority's expanding operations. Fitch understands that costs have been managed well below budget as actual maintenance contract prices were below expectation. Senior debt service coverage remained robust at 2.44x in fiscal 2016, with a total coverage level of 2.09x.

FDOT initially operated, maintained, and repaired certain portions of the expressway system but subsequently turned them over to the authority's control, reimbursing it for the costs of that turnover. Pursuant to the lease purchase agreement, FDOT agreed to pay the cost of O&M and renewal and replacement on those portions of the system through advances of state funds subject to annual appropriation by the state legislature.

Under the terms of the 2014 interlocal agreement between CFX and FDOT, no additional parity bonds may be issued by CFX without FDOT's approval until lease purchase agreement related repayments have been fully repaid, unless debt service coverage on all obligations is above 1.45x, with the exception of consented borrowings for the Wekiva Parkway and I-4 projects. Furthermore, projects from Osceola County Expressway Authority have not yet transferred to the CFX; when they do, they will be considered 'non-system projects' and will not have claim to System Pledged Revenues under the bond resolution.

Currently, there is \$151 million in aggregate remaining liability to FDOT which was originally scheduled to be repaid through fiscal 2024 on deeply subordinated basis with \$20 million per year through fiscal 2023 and \$11 million in fiscal 2024. On September 8, 2016 the authority's board approved a full repayment of the remaining \$151 million balance using its unrestricted reserves, currently at \$343 million. With repayment expected during fiscal 2017, cash on hand is expected to remain solid at about 1,000 days based on unrestricted balances and in excess of 2,000 days when incorporating CFX's approximately \$164 million debt reserves.

For more information on the Central Florida Expressway Authority, please see Fitch's press release 'Fitch Rates Central Florida Expressway Authority's Senior Revenue Bonds 'A'; Outlook Stable' dated March 11, 2016 available at [www.fitchratings.com](http://www.fitchratings.com).

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Date of Relevant Rating Committee: March 10, 2016

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### **Applicable Criteria**

Rating Criteria for Infrastructure and Project Finance - Effective from 28 September 2015 to 8 July 2016 (pub. 28 Sep 2015) (<https://www.fitchratings.com/site/re/870967>)

Rating Criteria for Toll Roads, Bridges and Tunnels — Effective Sept. 29, 2015–Aug. 11, 2016 (pub. 29 Sep 2015) (<https://www.fitchratings.com/site/re/870170>)

#### **Additional Disclosures**

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