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Ratings

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Summary:

Central Florida Expressway Authority; Toll Roads Bridges

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Summary:

Central Florida Expressway Authority; Toll Roads Bridges

Credit Profile		
US$148.9 mil sr lien rfdg rev bnds ser 2017 due 07/01/2042		
Long Term Rating	A+/Stable	New
Central Florida Expressway Authority sr lien (AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Orlando Orange Cnty Expwy Auth		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Orlando Orange Cnty Expwy Auth VRDB series 2008B4		
Unenhanced Rating	NR(SPUR)	

Rationale

S&P Global Ratings has raised its long-term rating on Central Florida Expressway Authority's (CFX) senior-lien revenue bonds outstanding to 'A+' from 'A'. The outlook is stable. In addition, S&P Global assigned its 'A+' rating to the authority's series 2017 bonds, which have a par value of $148.9 million.

The upgrade reflects traffic and revenue performance that has exceeded forecasts, resulting in debt service coverage (DSC) at levels we view as strong. Although DSC will decline with new debt, we project it will remain at levels we consider strong. In addition, the system's growth has created a diversified system of roads that serves a large, expanding region that support continued traffic increases.

The 'A+' long-term rating reflects our view of the credit profile of a regional system of toll facilities that has historically experienced strong system growth, offset by a large capital improvement program (CIP). The rating also reflects our assessment of the authority's:

- Strong average annual growth in transactions and toll revenues during the past 10 years through fiscal 2017, despite declines in traffic in both 2009 and 2010;
- Increasing system diversity, with key roads throughout the region serving predominantly commuter traffic;
- Strong projected DSC (S&P Global Ratings-calculated), with a minimum forecast at approximately 1.65x over the next 10 years; and
- Strong financial resources, with $398 million of unrestricted cash and investments on hand as of May 31, 2017 translating to about 1,800 days' cash based on CFX's fiscal 2017 expenses. However, we expect this to decline due to the CIP and debt management.

Offsetting credit factors, in our view, are the authority's:

- The fiscal years 2018-2022 work plan that totals $1.63 billion a portion of which will be debt financed; and

- Competition from toll-free alternatives on some system facilities, although they are becoming increasingly more congested.

System pledged revenues will secure the bonds, which are on par with parity bonds. Bond proceeds will advance refund all or a portion of the 2007A, 2010A, 2010B, and 2010C bonds; and pay costs of issuance.

The expressway system comprises several contiguous segments totaling 118 miles in the Orlando metropolitan area. The system connects the growing residential areas east and west of Orlando to downtown. There are five limited-access expressways:

- The East-West Expressway (34% of revenues in fiscal 2017);
- The Central Florida GreeneWay (34%);
- The Beachline Expressway (17%);
- The Western Beltway (12%); and
- The John Land Apopka Expressway (3%).

CFX has increased toll rates four times since 1980, most recently in July 2012, when the authority raised cash rates 25 cents across most ramps and toll plazas and electronic rates 9%. The authority also approved increases tied to the greater of the consumer price index or 3% per year, to take effect every five years starting July 1, 2012 (fiscal 2013). The board amended the toll policy in February 2017, and now annual toll increases will be the greater of CPI or 1.5% beginning in fiscal 2019. Transactions increases over the past five years (2013 to 2017) ranged from 3.0% to 11.4% per year. Revenue increases during 2013 to 2017 ranged from 6.5% to 11.5% per year.

Toll revenues compose the majority of CFX's revenues (98% in the most recent year). S&P Global Ratings-calculated DSC includes preservation expense in operating expenses to recognize it as an ongoing, material expense. S&P Global Ratings-calculated DSC in 2017 was strong at 1.81x, although down from 2.0x in 2016. This decline is due to increased debt service as well as increased preservation expense. Management forecasts senior-lien coverage will range from 1.91x to 2.19x and total coverage from 1.86x to 2.09x from 2018 to 2027. The projected DSC decrease is due to slower revenue growth projections and increasing debt service for continued debt issuance. S&P Global Ratings-calculated all-in coverage will be lower but remains at levels we view as strong (above 1.60x). Financial resources are very strong in our view, with $398 million of unrestricted cash and investments on hand as of May 31, 2017, translating to about 1,800 days' cash based on CFX's fiscal 2017 expenses. A portion of the unrestricted cash balance will finance capital projects and debt management and management has indicated that it could draw this down to $100 million, which we view as adequate for the rating. In addition, the authority maintains an approximately $167 million reserve to help manage its swap portfolio.

There were about 421.4 million transactions in fiscal 2017; about 83% of CFX's transactions are electronic. The authority has almost completed the conversion of traditional barrier-style toll plazas into express one, where E-PASS customers can travel without slowing or stopping.

CFX approved its fiscal years 2018-2022 CIP on May 12, 2017; it totals about $1.6 billion. Management estimates additional parity bonds, surplus revenues, and other available sources will fund the balance of funds needed to complete CIP projects. Management plans to fund the CIP at a level that maintains minimum senior-lien coverage of 1.60x. Legislation was enacted on June 20, 2014, that changed the name of the authority to the Central Florida

Expressway Authority and expanded the area served to include additional counties of Seminole, Lake, and Osceola in addition to Orange. In 2017, CFX's jurisdiction expanded to include Brevard County.

The authority has five swaps with various counterparties. All of its swap termination payment obligations, if any, are payable subordinate to debt service. All of its swaps are insured. Ambac Assurance Corp. insures the swaps hedging the series 2008 bonds. Because we have withdrawn the ratings on Ambac, an insurer event occurred under the swaps in fiscal 2009. Three of the five related swaps required the authority to demonstrate that it maintains at least an 'A-' rating level from S&P Global Ratings or an 'A3' rating level from another rating agency. In addition, a fourth swap did not consider the lowered rating as an early termination event. The fifth required CFX to either replace the insurance policy or post collateral for the termination value exceeding $15 million. The authority is otherwise not required to post collateral. It maintains a reserve totaling approximately $167 million to manage termination risk. As of Oct. 31, 2017, the swap portfolio's mark-to-market value was $165 million against CFX. The swaps pose liquidity risks through collateral postings. We believe the swaps are credit neutral, given the authority's liquidity position, its access to credit markets, and the swap insurance in place for certain swaps. In addition, CFX has entered directly placed bank debt totaling $496.6 million; however, this debt does not contain acceleration provisions and does not create increased contingent liquidity risk. If the authority's liquidity declines or market access to the authority is limited, we could lower the rating.

Outlook

The stable outlook reflects strong demand for the system, with strong transaction growth leading to increased revenues that provide strong DSC. We expect that CFX will continue to balance the needs of its existing system expansion projects, which are necessary to address regional growth, with sound financial operations.

Upside scenario

Continued strength in transactions and revenue growth that leads to DSC (S&P Global Ratings-calculated) significantly above the authority's latest financial forecast that we view as sustainable could lead to an upgrade.

Downside scenario

If additional CIP needs require additional debt or transactions decline significantly, leading to DSC (S&P Global Ratings-calculated) significantly below CFX's current financial forecast, we could lower the rating.

Ratings Detail (As Of November 21, 2017)		
Central Florida Expressway Authority sr lien (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Central Florida Expressway Authority sr ln (AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Central Florida Expressway Authority sr ln (AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Central Florida Expressway Authority toll rds br (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Ratings Detail (As Of November 21, 2017) (cont.)		
Central Florida Expressway Authority toll rds br (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Central Florida Expressway Authority var rate rfdg rev bnds RMKT ser 2008B-2		
Long Term Rating	A+/Stable	Upgraded
Central Florida Expwy Auth RMKTD		
Long Term Rating	A+/Stable	Upgraded
Unenhanced Rating	NR(SPUR)	
Central Florida Expwy Auth (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Orlando Orange Cnty Expwy Auth		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Long Term Rating	A+/Stable	Upgraded
Orlando Orange Cnty Expwy Auth VRDB series 2008B3		
Unenhanced Rating	NR(SPUR)	

Many issues are enhanced by bond insurance.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.