FITCH UPGRADES CENTRAL FLORIDA EXPRESSWAY AUTHORITY'S SR REVS TO 'A+' & TIFIA LOAN TO 'A'

Fitch Ratings-New York-15 August 2018: Fitch Ratings has upgraded Central Florida Expressway Authority's (CFX) (former Orlando-Orange County Expressway Authority) $2.3 billion senior revenue bonds to 'A+' and approximately $194 million subordinated federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans to 'A'. The Rating Outlook on all ratings is Stable.

The upgrades to 'A+' on the Senior Lien and 'A' on the Junior Lien reflect the system's strong traffic growth, unlimited legal rate-making authority and robust debt service coverage. Fitch expects the authority to maintain strong metrics even when incorporating expected future debt issuances for the capital plan of $890 million through fiscal 2023.

KEY RATING DRIVERS

The ratings reflect 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 ratings also reflect the system's continued strong operating and financial performance as well as the maintenance of substantial internal liquidity. The upcoming capital plan, while sizable and requiring additional borrowing, is manageable and will serve to enhance the essentiality of the system.

Fitch's rating case 10-year average senior debt service coverage ratio (DSCR) of 1.9x is strong, with a minimum coverage of 1.7x including future debt issuances, and senior leverage remaining below 7.0x. The fully subordinated position of the TIFIA loan behind senior bonds and its correspondingly slightly weaker debt metrics result in a one-notch rating differential. Fitch's rating case total 10-year average DSCR is 1.8x, with total DSCR declining to an average of 1.6x in the last five years through fiscal 2027 (ending in June) and max total leverage of 7.2x in fiscal 2023.

Established Road Network in Robust Service Area (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. Fitch views current toll rates (about $0.16/mile for cars) as moderate and considers CFX to have reasonable ratemaking flexibility. The most recent toll increase prior to a 2.05% electronic toll increase in July 2018 occurred in 2012 and had limited impact on traffic.

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. In response to strong performance, the board amended its toll policy in February 2017 to increase toll rates each year by the greater of CPI or 1.5% beginning in fiscal 2019 as opposed to the previous plan with CPI-linked increases every five years. The first increase under the new policy, 2.05%, was implemented in July 2018. Fitch views the amended policy as favorable, as incremental increases may be better accepted publicly compared with one-time larger hikes. CFX has unlimited legal rate-making authority and can increase rates as needed.

Manageable Capital 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 $1.9 billion five-year capital program is considerable, with approximately 44% of projects expected to be funded with debt. The authority has a proven track record of delivering capital improvements, having recently completed the CFX portion of the Wekiva Parkway and several capacity improvement projects.

Moderate Debt Escalation, Counterparty Exposure (Debt Structure: Senior - Midrange; Junior Lien - Midrange): CFX's senior debt is currently 81% fixed-rate, with the remainder in synthetically fixed mode. In addition, the majority of debt service reserve requirements are met with surety policies, with $105 million in the form of surety backing versus $60 million cash funded. The authority has also established a $160 million cash reserve for debt management and future debt reserves are expected to be fully cash-funded. 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. The senior debt service profile increases through 2023, and is then approximately flat through maximum annual debt service (MADS) of $229 in 2030, representing a 2.6% CAGR from 2019 to 2030. Post 2030, debt service is flat for several years before declining as debt amortizes.

Financial Profile Moderate Leverage: The system carries moderate leverage, with total net debt to cash flow available for debt service (CFADS) expected to reach 6.7x by fiscal 2022 in the Fitch rating case, as debt is issued for the capital plan. The DSCR averages 2.2x on the senior lien and 2.1x on the junior lien in the Fitch base case, and 1.9x and 1.8x, respectively, in the Fitch rating case. Fitch's breakeven analysis suggests that CFX has very little dependence on revenue growth in order to service debt based on its existing operating and financial profile.

PEER GROUP

Comparable peers include other large expressway systems such as Miami Dade Expressway (MDX; A/Negative), Massachusetts Department of Transportation (MassDOT), and Metropolitan Highway System (MHS;A+/Stable). Both MDX and CFX service large, growing service areas in Florida, and have experienced significant expansion over recent years. CFX has autonomy over rate setting, whereas the rate setting autonomy of MDX has been challenged by the Florida State Legislature's intervention to decrease tolls. Greater rate-making flexibility and higher coverage levels contribute to CFX's higher rating than MDX. MHS has higher coverage, but also has higher leverage than CFX.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Sustained decline in net revenues resulting in senior and total DSCR consistently below 1.8x and 1.6x levels, respectively.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Senior and total DSCR in excess of 2.0x and 1.8x, respectively, for a sustained period.

CREDIT UPDATE

Performance Update

Performance in fiscal 2018 based on unaudited financials exceeded Fitch's expectations with net toll revenue growth of 3.5% and traffic growth of 3.0%. This reflects the underlying strength of the economy of Central Florida, supported by robust population and employment growth. The authority's Operations, Maintenance and Administration (OM&A) expenses in fiscal 2018 rose 17% yoy, pre FDOT advances and excluding reserve deposits, but were much lower than budget. The growth in expenses is due to greater expenses in operations and maintenance for the Wekiva Parkway and an increase in call center and image review costs due to greater volume in transactions.

Hurricane Irma hit on Sept. 5, 2017 (fiscal 2018), and the governor suspended all tolls for 16 days. CFX estimates $18.75 million in toll revenue was lost as a result. No major physical damage occurred and repairs cost approximately $1 million.

FDOT transferred the toll collection processing of SunPass Electronic Tolling System to Conduent Solutions, Inc. in June 2018. There have been difficulties with processing transactions since the transition, resulting in a 75% reduction in posted transactions (137 million fewer) compared with last year, a yoy decrease of approximately $151 million in posted toll revenues. The backlog of unprocessed transactions is expected to be completed by September. FDOT has been and will continue to transfer amounts equal to the estimated weekly toll revenues to CFX, preventing CFX from facing a negative financial impact while there is a backlog in processing transactions. When all of the transactions are posted, there will be a reconciliation to true-up revenues.

CFX opened the last five miles of its portion of the Wekiva Parkway in April 2018. Wekiva is a 27 mile extension of the existing S.R. 429. The CFX section of the Wekiva Parkway includes three mainline toll gantries in an open road, all electronic toll (AET) collection facility, with interchanges at U.S. 441, Kelly Park Road, and S.R. 46 in Lake County. The CFX portion of the parkway is complete and the entire parkway extension is expected to be open by late 2021. FDOT is completing the remaining section, which will complete the beltway around northwest metropolitan Orlando.

Fitch Cases

Fitch's base case utilizes the CFX's projections of revenues and expenses and incorporates future debt issuances to support the capital plan. CFX's projections reflect gross toll revenues growing at a compound annual growth rate (CAGR) of 3.6% through 2027, supported by annual toll increases, the full opening of the Wekiva Parkway, and organic traffic growth on the system due to growth in the region. Operating, maintenance and administrative costs grow at a CAGR of 6.2% through 2027. The recent growth in operating expenses related to the opening of the Wekiva Parkway is expected to moderate going forward now that the CFX section is completed. Senior lien DSCR averages 2.2x, with a minimum of 2.0x and the junior lien DSCR averages 2.1x, with a minimum of 1.9x.

The Fitch rating case applies a 2% decrease in traffic in 2020 and 2021 to model the effect of a recession followed by flat transaction growth through 2027. Fitch applied 1.5% annual toll increases in line with the new toll rate policy. From 2022-2027, Fitch assumes growth in operating expenses is 0.5% greater that the growth rate projected in the base case. Senior lien debt service coverage averages 1.9x with a minimum of 1.7x and total coverage averages 1.8x with a minimum of 1.6x. Fitch notes debt service coverage ratios are well above 2.0x in FY 2019 and 2020 and decline to the minimum coverage ratios in 2023. Fitch assumptions under the rating case are viewed as conservative and also include proposed debt borrowings for the capital plan. The CFX work plan is updated every year. If revenues are under projections, the work plan is revised and projects are delayed. Year five leverage in the rating case is 6.1x for senior debt and 6.7x for total debt, within Fitch's range for the 'A' rating category.

Fitch also included a breakeven scenario to assess the level at which revenue could annually decline while maintaining 1.0x coverage and depleting all bond reserves. Based on Fitch's analysis, which assumes base case assumptions, CFX is not dependent on additional revenue growth on either lien to service debt at the 1.0x level through 2052.

Asset Description

CFX is an independent authority that maintains, constructs and operates a system of toll roads in Seminole, Lake, Osceola, Orange and Brevard counties. The system is comprised of six expressways: the Beachline Expressway (SR 528), the East-West Expressway (SR 408), the Central Florida GreeneWay (SR 417), the Western Beltway/Wekiva Parkway (SR 429), the Apopka Expressway (SR 414) and the Western Beltway Connector (SR 451).

Security

The senior bonds are secured by a pledge of, and lien on, CFX System Revenues net of Operations, Maintenance and Administrative Expenses. The TIFIA loan is secured by a junior lien pledge of, and lien on, CFX System Revenues net of Operations, Maintenance and Administrative Expenses.

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Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
https://www.fitchratings.com/site/re/10038532
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)
https://www.fitchratings.com/site/re/10038900