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Central Florida Expressway Authority, FL

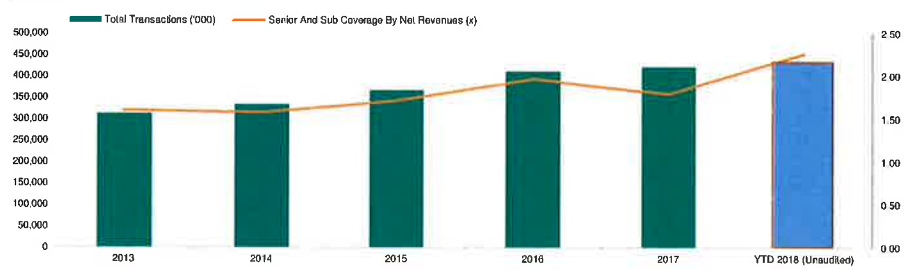
Update to credit analysis

Summary

The Central Florida Expressway Authority's (CFX or authority, A1 senior, A2 junior, stable) credit profile reflects strong traffic and revenue performance, which is trending above forecast despite hurricane-related disruptions in both fiscal 2017 and 2018, an adopted policy of indexed toll increases that sustains strong financial metrics, and a proactive approach to undertaking capital improvement and expansion projects to serve a rapidly growing service area. With the expected Series 2018 bonds CFX will have approximately $2.856 billion debt outstanding, including a $193.7 million Transportation Infrastructure Finance Innovation Act (TIFIA) loan.

A high debt load, construction of large projects and lack of a standard 12-month debt service reserve fund (DSRF) for all outstanding bonds and exposure to variable rate debt (18.9% of total) and swaps are on-going credit risks that are somewhat offset by the authority's strong liquidity.

Exhibit 1



Source: Moody's Investors Service

Credit strengths

» Strong traffic and revenue growth due to population and economic growth in the service area continues to support healthy debt service coverage ratios (DSCRs) and liquidity

» Increasingly diverse service area economy that is forecasted to continue to grow and contribute to traffic growth

» Limited competition from non-tolled roads

» Effective toll increase policy linked to CPI

» Historically strong liquidity, though expected to be somewhat reduced for pay-go funding of capital projects

» Junior lien TIFIA has essentially the same legal security provisions as the senior lien, but does not have a springing lien

Credit challenges

» Extensive capital program planned totaling $1.9 billion through 2023, which will require an estimated $850 million in additional debt

» High debt to operating revenue ratio

» Significant exposure to variable rate debt and swaps

Rating outlook

The rating outlook is stable based on our expectation that the expansion of the service area economy will continue to spur traffic and toll revenue growth that will continue to provide good financial margins and DSCRs above 2x, and that the authority will retain strong levels of liquidity, despite a capital plan that requires significant borrowing.

Factors that could lead to an upgrade

» Significantly stronger than currently forecasted traffic and toll revenue growth that strengthens total net DSCRs above 2x and lowers the ratio of debt to operating revenues consistent with medians for AA-rated toll roads

» Reduction of exposure to variable rate debt and related swaps

Factors that could lead to a downgrade

» Traffic and revenue growth below projections

» Increased leverage at a rate that exceeds the authority's ability to maintain DSCRs of 1.75x and higher

Key indicators

Exhibit 2

CENTRAL FLORIDA EXPRESSWAY AUTHORITY, FL

	2013	2014	2015	2016	2017
Total Transactions Annual Growth (%)	3.2	6.8	9.8	12.0	2.5
Debt Outstanding ($'000)	2,546,805	2,547,380	2,530,505	2,700,900	2,684,395
Debt to Operating Revenues (x)	8.4	7.8	7.0	6.7	6.2
Days Cash on Hand ('000)	2,265	3,051	2,747	2,619	1,474
Senior Lien Debt Service Coverage By Net Revenues (x)	1.92	1.93	2.10	2.29	2.09
Total Debt Service Coverage By Net Revenues (x)	1.60	1.57	1.71	1.96	1.79

Source: Moody's Investors Service

Profile

The authority was established in 1963 and operates and maintains an integrated system of seven expressway toll roads spanning 118 miles of roadway, including the Wekiva Parkway, in and around the City of Orlando. The CFX system also connects with the two other limited access roadways in the area, the I-4 and Florida's Turnpike.

CFX is an independent special district established by the Florida Legislature. On June 20, 2014, the governor of Florida signed the bill to create the CFX, which assumed the governance and control of the former Orlando-Orange County Expressway Authority, including its assets, personnel, contracts, obligations, liabilities, facilities and tangible and intangible property.

CFX is responsible for the construction, maintenance and operation of toll roads in Seminole, Lake, Osceola, Orange and Brevard Counties, and may also acquire, construct and equip rapid transit, trams and fixed guideways within the rights-of-way of the expressway system.

Detailed credit considerations

Revenue Generating Base

The CFX operates an integrated system of seven expressway toll roads in the greater Orlando area. Other high-speed highways in the service area, such as I-4 and sections of the Florida Turnpike (Aa2, stable) complement rather than compete with the authority's route network. Direct competition is limited to local roads which are generally congested during peak commuting times and have multiple traffic lights. With over 86% toll transactions collected electronically, the CFX is well positioned to be able to easily implement future toll rate increases.

The Orlando-Kissimmee-Sanford metro area is at full employment and this is contributing to strong traffic and revenue growth for CFX. The jobless rate has hovered near 3.4% since the beginning of 2018 as the labor market has added jobs and employees at roughly the same rates. Wages have increased in seven of the last eight months. Steadiness in the labor market has spilled over to the housing market; last quarter, the median sale price for single-family homes surged 9.8% over the prior year, the second biggest increase in the state. Among metro areas across the nation with more than 1 million residents, the Orlando metro area has been one of the five fastest-growing for six consecutive years.

Operational and Financial Performance

The credit profile of CFX incorporates the relative inelasticity of demand experienced following a 2% toll rate increase implemented in July 2018 and a prior increase in fiscal 2013. The low elasticity reflects the strategically vital role the turnpike plays in Central Florida's rapidly growing service-oriented economy anchored by Disney and other theme parks as well as by growing healthcare and higher education sectors. System transactions increased 5.7% and revenues 6.1% in fiscal 2017, following strong growth of 11.% and 11.4%, respectively, in fiscal 2016. Unaudited results for fiscal 2018 show a 3.2% revenue increase over fiscal 2017 despite the loss of $19.2 million in toll revenues on account of a 15.8 day state-imposed toll suspension due to Hurricane Irma. Fiscal 2018 DSCRs are estimated at 2.37x for senior bonds and 2.26x for all debt.

While the toll revenue losses cannot be recovered from business interruption insurance, which does not cover voluntary toll suspensions, CFX has adequate liquidity that helped mitigate the revenue loss and sustained, strong traffic and revenue growth in rest of the fiscal year is expected to offset the loss. CFX sustained very minor physical damage to facilities and expects repairs to be covered in the routine maintenance budget.

Going forward DSCRs are forecasted to remain above 2.0x for both senior and junior lien debt under a reasonably conservative traffic and revenue growth case scenario that includes the anticipated issuance of $850 million in additional parity debt through 2023 to fund the authority's adopted $1.9 billion Five Year Work Plan. Approximately 40% of the program will be for existing system improvements and 29% for system expansion projects.

The annual independent consulting engineer's inspection completed in January 2018 shows system assets to be in good overall condition, with routine maintenance sufficient to address any maintenance conditions.

The Wekiva Interlocal Agreement enabled the authority's joint development of the Wekiva Parkway Project with FDOT. The agreement provides that CFX will finance, construct, manage and maintain 11.32 miles of the project, located in Orange and Lake Counties, while FDOT will finance, construct, manage and maintain the remaining 12.81 miles. The project is proceeding on schedule and on budget, with construction bids coming in lower than expected despite strong construction activity in the area. The CFX portion of the project was placed into service in March 2018 on schedule and within budget.

We expect the authority will benefit from a toll policy adopted by the board in February 2017. Per this toll policy, each year beginning in fiscal 2019, the toll rates for electronic toll collection (ETC) customers will increase by the greater of CPI or 1.5% rounded to the penny, and the toll rate for customers paying with cash will be the new rate rounded up to the nearest quarter, but always will be at least 10% higher than the ETC rate. This replaced the prior policy of toll increases every five years.

LIQUIDITY

The authority has maintained very strong liquidity, though substantial cash and investment balances are expected to be used for pay-go funding of the Wekiva Parkway and the longer-term capital program. As of the end of fiscal 2017 the authority had substantial liquidity equivalent to 1,474 days cash on hand (DCOH), including a dedicated $160 million swap reserve. This is a planned drop from the over 2,600 DCOH in fiscal 2016 in order to fund capital projects.

Debt and Other Liabilities

CFX, pre-issuance of the Series 2018 bonds, has outstanding $2.39 billion senior bonds, $193.7 million TIFIA loan and $48.2 million in subordinate obligations.

The current $1.9 billion five-year capital work plan covers FYs 2019 through 2023 and includes $769 million in existing system improvements; $555 million in expansion projects; $276 million for new interchange projects and $177 million for renewal and replacement projects. The authority plans to issue $850 million of additional parity bonds through 2023 with $327 million in 2020 and $300 million in 2022 to fund the plan, with the balance of the funding from annual excess cash flow and construction and maintenance funds on hand.

DEBT STRUCTURE

Including all expected issues through 2023 annual senior lien debt service escalates gradually through 2028 then declines from 2035 through final maturity in 2042.

Both senior and junior lien debt has a rate covenant of 120% of annual average debt service by system wide net revenues. System wide net revenues of the preceding fiscal year, or 12 consecutive months out of the preceding 15 months must equal at least 120% of outstanding and proposed parity annual debt service. TIFIA requires at least 120% debt service coverage for the remaining life of the loan as well as no rating downgrade of the then existing rating.

The CFX currently has a board-adopted debt policy that is more conservative than required under the master senior and junior bond resolution. In order to issue senior lien debt, the authority must demonstrate that revenues will be sufficient to cover the existing and new debt service coverage by 1.45x versus 1.20x in the senior and junior resolution. The debt policy further states that for planning purposes, the authority maintains minimum debt service coverage of at least 1.60x on the existing and planned senior lien debt issues. For the junior lien, CFX has proposed a target debt service coverage 1.50x for planning purposes.

DEBT-RELATED DERIVATIVES

The authority has five swaps on a notional amount of $495.8 million to hedge 100% of its variable rate bonds, which is reduced from $999 million five years ago. The mark-to-market valuation was negative $127.4 million as of September 28, 2018. CFX has set aside $160 million available in a dedicated swap reserve to cover potential risks associated with its swap exposure.

PENSIONS AND OPEB

Authority employees participate in the State of Florida Retirement System (FRS), a public employee defined benefit pension plan.

Pursuant to GASB 68, as of June 30, 2017, the authority reported a pension liability of $6.83 million for its proportionate share of the state's net pension liability for FRS. Moody's calculates an adjusted net pension liability (ANPL) at $26.267 million, which is small relative to the amount of debt outstanding and manageable.

Management and Governance

The CFX board is now made up of ten members, consisting of: one member each appointed by the respective chairs of the county commissions of Lake, Orange, Osceola, Seminole and Brevard Counties; three citizens appointed by the Governor; the Mayor of Orange County; and the Mayor of the City of Orlando. The Florida Turnpike Enterprise Executive Director serves as a non-voting advisor.

Other Considerations: Mapping to the Grid

The grid is a reference tool that can be used to approximate credit profiles in the toll road sector in most cases. However, the grid is a summary that does not include every rating consideration.

The published CFX rating is one notch lower than the scorecard indicated rating. The published rating incorporates other factors such as the potential for traffic volatility due to the tourism based economy and the potential impact of planned additional debt to finance the capital work program.

Exhibit 3
Government Owned Toll Roads Methodology Scorecard 3

Factor	Subfactor	Metric	Score
1. Market Position	a) Asset Type		A
	b) Operating History		Aaa
	c) Competition		A
	d) Service Area Characteristics		Aa
2. Performance Trends	a) Annual Traffic Transactions	420,930	Aaa
	b) Traffic Profile	99% passengers	Aaa
	c) Five Year Traffic CAGR	6.8%	Aaa
	d) Ability and Willingness to Increase Toll Rates		Aa
3. Financial Metrics	a) Debt Service Coverage Ratio	1.79	A
	b) Debt to Operating Revenue	6.2	Baa
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs		Baa
	b) Limitations to Growth/Operational Restrictions		A

Notching Considerations	Metric	Notch
1 - Debt Service Reserve Fund level		0
2 - Open/Closed Flow of Funds		0
3 - Days Cash on Hand		1
4 - Other Financial, Operating and Debt Factors		-0.5
Scorecard Indicated Rating:		Aa3

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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