S&P Global Ratings

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Central Florida Expressway Authority; Toll Roads Bridges

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Central Florida Expressway Authority; Toll Roads Bridges

Credit Profile		
US$432.405 mil sr lien rev bnds ser 2019B due 07/01/2049		
Long Term Rating	A+/Stable	New
US$122.325 mil sr lein rev bnds ser 2019A due 07/01/2049		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' rating to the Central Florida Expressway Authority's (CFX) $122.3 million series 2019A and $432.4 million series 2019B senior-lien revenue bonds. At the same time, S&P Global Ratings affirmed its 'A+' rating on the CFX's senior-lien revenue bonds outstanding. The outlook is stable.

The rating reflects the combination of the authority's very strong enterprise risk profile and strong financial risk profile. Our enterprise risk profile assessment incorporates the CFX's strong traffic trends due to the authority's important role and strategic location, despite some competition from toll-free roads. Our financial risk profile assessment considers the CFX's strong revenue growth from toll rate increases and favorable traffic trends that we expect to continue. This will allow the authority to maintain strong financial performance, and very strong debt and liabilities capacity.

The enterprise risk profile reflects our view of the CFX's:

- Very strong market position due to the toll road's strong demand characteristics given its important role as a regional infrastructure provider, with critical transportation links in a five-county region in central Florida, despite nontolled alternatives;
- 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 below-average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and
- Very strong management and governance, reflecting the authority'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 regional tolling agency.

The financial risk profile reflects our view of the CFX's:

- Strong financial performance that we expect to continue due to the authority's history of strong revenue growth from its willingness and ability to increase toll rates and the toll road's favorable traffic trends that, in our view, will allow the CFX to maintain total debt service coverage (DSC; S&P Global Ratings-calculated) above 1.25x;
- Very strong debt and liabilities capacity that we expect will continue as revenue increases from transaction growth and toll increases while management adds some debt to fund the capital improvement plan (CIP); and

- Very strong liquidity and financial flexibility based on our expectation that the CFX will maintain its liquidity position—three-year average of over 1,200 days' cash on hand and 12% of debt from fiscal year 2016-2018. The authority plans to cash-fund a portion of its CIP and issue additional debt, which could lower its liquidity and financial flexibility.

Net revenues of the CFX toll system secure the authority's toll road revenue bonds. Proceeds from the 2019A bonds will be applied to finance the cost of purchasing and acquiring a toll facility known as the Poinciana Parkway (SR 538) from Osceola County. Proceeds from the 2019B bonds will be applied to pay a portion of the costs of various improvements to the system included in the five-year work plan, including reimbursing the CFX for the costs paid on an interim basis from other available funds of the authority. Bond proceeds will also be used to pay costs of issuance and fund any required reserves.

Legislation in 2014 changed the name of the authority to the Central Florida Expressway Authority and expanded the area served to include Seminole, Lake, and Osceola counties, in addition to Orange County. In 2017, the CFX's jurisdiction expanded to include Brevard County.

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

- The East-West Expressway (32% of revenues in fiscal 2018);
- The Central Florida GreeneWay (34%);
- The Beachline Expressway (17%);
- The Western Beltway (14%); and
- The John Land Apopka Expressway (3%).

Outlook

The stable outlook reflects our opinion that the CFX will maintain total DSC (S&P Global Ratings-calculated) at or above 1.25x and its financial capacity to manage its debt burden will not diminish.

Upside scenario

We could raise the rating during the next two years if revenue growth continues to exceed the forecast and we believe it is sustainable while liquidity and financial flexibility remain at levels we view as very strong.

Downside scenario

Although unlikely, we could lower the rating in the next two years if the CIP requires significantly more debt than planned and coverage declines to levels we view as adequate (below 1.25x; S&P Global Ratings-calculated).

Enterprise Risk Profile

Our assessment of the CFX's enterprise risk profile as very strong reflects the authority's extremely strong economic fundamentals, low industry risk, very strong market position, and very strong management and governance.

Economic fundamentals

The primary service area, the Orlando-Kissimmee-Sanford metropolitan statistical area (MSA), has extremely strong economic fundamentals due to favorable economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and below-average unemployment levels.

We consider the MSA's economy broad and diverse. Central Florida is a major tourist destination. It also has large educational facilities, including the University of Central Florida, and a growing medical sector, including Lake Nona Medical City.

Market position

We consider the authority's overall market position very strong, reflecting its important role as a regional infrastructure provider, with critical transportation links in the Orlando MSA including the five-county service area of Seminole, Lake, Osceola, Orange, and Brevard.

Because of the system's important role and strategic location, it has exhibited favorable traffic trends. From 2010-2018, CFX traffic levels increased an average of 5.9% a year. Given the continued population growth in the region and importance of the system assets, transaction growth is expected to continue. The traffic and revenue forecast projects growth over the next 10 years through 2028 at 2.1% per year, a level we view as achievable given the recent strong growth and expected population increase.

Management and governance

The authority's management and governance, in our opinion, is very strong, reflecting our view of the CFX's strategic positioning; risk management and financial management; and organizational effectiveness. The management team has considerable expertise and experience due to its long tenure. It provides frequent and high-quality disclosure and maintains a detailed long-range financial forecast.

In addition, management has adopted a variety of financial policies, including an investment policy, a debt management policy, and an interest rate risk management policy. We consider these types of codified arrangements prudent in managing operations.

Financial Risk Profile

Our assessment of the CFX's financial risk profile as strong incorporates the authority's strong financial performance, very strong debt and liabilities capacity, and very strong liquidity and financial flexibility. We base our financial profile risk assessment on historical figures, which reflect our expectation that key financial metrics will continue near current levels. In our analysis, we evaluate the CFX's updated detailed financial plan that we believe includes reasonable assumptions, and yield results (S&P Global Ratings-calculated) comparable with historical ones. Our financial profile assessment also considers the authority's financial policies, which we view as credit neutral.

In accordance with the CFX's board-adopted toll rate policy, each year beginning in 2019 the authority will increase tolls for electronic toll collection customers by the greater of CPI or 1.5%, and tolls for cash customers will remain at least 10% higher. The authority recently changed the pay-by-plate toll rate to be twice the electronic toll collection rate. Historical transaction growth over the past eight years averaged 5.9% per year and revenue growth averaged 7.1% per year. We expect growth in transactions and revenues to support continued financial performance similar to historical results.

Financial performance

We view the CFX's financial performance as strong, which we expect to continue. The assessment incorporates our expectation that the authority will maintain total DSC, as per our calculations, at or above 1.25x; the CFX's demonstrated willingness and ability to raise tolls as necessary to meet or exceed projections; and its resilient and favorable traffic trends.

From 2008-2018, toll revenues more than doubled to over $450 million in 2018 from approximately $200 million in 2008.

Average total DSC, as per our calculations, for fiscal years 2016-2018 was 1.92x. Our DSC calculations include the authority's audited financial results reported on a generally accepted accounting principles basis, adding total operating revenues and interest income, subtracting total operating expenses including preservation expenses net of depreciation, and then dividing by annual debt service. Calculating DSC as per the indenture, DSC is 2.32x for fiscal 2018. The authority's rate covenant is system-pledged revenues equal to at least 1.20x of annual debt service. The board has a policy to maintain coverage of 1.45x and management's planning policy is 1.60x.

For the CFX to maintain DSC (S&P Global Ratings-calculated) at its projected levels throughout the forecast, it will have to rely on growth in toll revenue due to toll increases and modest growth in traffic, which we believe is attainable given the authority's demonstrated ability and willingness to increase tolls, and favorable traffic trends.

Debt and liabilities capacity

The CFX's debt capacity, in our view, is very strong and we expect the authority to maintain it at these levels. The CIP five-year work plan (2020-2024) totals $2.5 billion and requires approximately $1.3 billion of additional debt including the current issuance. The CFX's debt to net revenues in fiscal 2018 is 7.7x, and we expect it to remain below 10x over the next five years including planned additional debt, due to additional revenue from planned toll rate increases and transaction growth.

The authority has five swaps with various counterparties. Any swap-termination payment obligations are payable subordinate to debt service. All of the swaps are insured. Ambac Assurance Corp. insures the swaps hedging the series 2008 bonds. Because we withdrew our rating 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 the ratings on it at least at the 'A-' level from S&P Global Ratings or the A3 rating level from Moody's. A fourth swap did not consider the lowered rating as an early termination event. The fifth swap required the CFX to either replace the insurance policy or post collateral for the termination value exceeding $15 million. The authority is not required to post collateral. It maintains a reserve totaling approximately $162 million to manage termination risk. As of Sept. 30, 2019, the swap portfolio's mark-to-market value was $194.2 million against the CFX. The swaps pose potential liquidity events through collateral postings. We believe the swaps are credit neutral, given the current ratings on the authority, the authority's liquidity position, its access to credit markets, and the insurance for some swaps. In addition, the CFX has directly placed bank debt totaling $495.8 million; however, this debt does not contain acceleration provisions and, therefore, does not create increased contingent-liquidity risk.

Liquidity and financial flexibility

In our assessment of the CFX's very strong liquidity and financial flexibility, we consider the authority's three-year average audited results for fiscal years 2016-2018 (June 30) with unrestricted cash and investments days' cash of over 1,200 days and 12% of debt, which we consider very strong. Liquidity decreased from $355 million in 2017 to $214 million (632 days' cash and 8% of debt); however, the authority will reimburse itself with proceeds from the current issue for some unrestricted cash spent on capital projects. Although the authority has a long history of maintaining unrestricted funds at levels we view as very strong, its CIP totals $2.5 billion and 44% will be funded with available liquidity and net revenues. This funding could lead to lower unrestricted cash levels.

Ratings Detail (As Of October 30, 2019)		
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Long Term Rating	A+/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
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Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Long Term Rating	A+/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 30, 2019) (cont.)		
Central Florida Expressway Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Central Florida Expwy Authority		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Orlando Orange Cnty Expwy Auth		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Orlando Orange Cnty Expwy Auth VRDB series 2008B3		
Unenhanced Rating	NR(SPUR)	
Orlando Orange Cnty Expwy Auth VRDB series 2008B4		
Unenhanced Rating	NR(SPUR)	

Many issues are enhanced by bond insurance.