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Ratings

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Summary:

Miami Dade County Expressway Authority, Florida; Toll Roads Bridges

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Summary:

Miami Dade County Expressway Authority, Florida; Toll Roads Bridges

Credit Profile		
Miami Dade Cnty Expwy Auth toll sys		
Long Term Rating	A+/Stable	Upgraded
Miami Dade Cnty Expwy Auth toll (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Miami Dade Cnty Expwy Auth toll sys rev		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has raised its long-term and underlying ratings on Miami Dade County Expressway Authority (MDX), Fla.'s toll revenue bonds outstanding to 'A+' from 'A'. The outlook is stable.

The upgrade reflects MDX's successful transition to open road tolling (ORT) and a demonstrated ability to maintain strong historical debt service coverage (DSC) levels that we expect to continue based on a forecast we deem achievable.

The ratings reflect what we consider the following credit strengths:

- The critical links that the urban toll system provides within the Miami-Dade County region roadway network, featuring moderate-to-significant time savings compared with travel times on free alternative routes; and
- DSC and liquidity that we expect to decline in the near term but that will remain at levels we consider strong.

Offsetting credit concerns, in our opinion, include:

- Increasing debt service requirements that could pressure DSC should revenue growth wane; and
- The system's large, ongoing capital needs that include additional borrowing within the next five years.

Net system revenues secure the bonds. We consider bond provisions credit neutral, despite an open flow of funds structure, because we expect any transfers out will be limited and that MDX will maintain a strong liquidity position. However, should it transfer out excess material amounts of revenue to fund non-authority projects, we could view the bond provisions as a credit negative because they could erode or limit MDX's ability to maintain or build cash reserves. Provisions include a 1.2x rate covenant and debt service reserves funded with cash. The additional bonds test is somewhat permissive, allowing the authority to issue bonds if projected net revenues, reflecting any toll rate increases scheduled to take effect, meet the rate covenant based on pro forma debt service requirements.

Hurricane Irma made landfall in Florida on Sept. 10, 2017. In advance of the storm, the governor declared a state of

emergency on Sept. 4. Toll collection was suspended as of Sept. 5, in accordance with the governor's direction, as part of the evacuation efforts. Once the majority of evacuees had made it safely back to their homes, the governor reinstated toll collections on Sept. 21.

The system experienced minimal revenue impact, estimated at $8 million, from the tolls suspension, which represents approximately 3% of annual toll revenues. Preliminary estimates from management indicate that fiscal 2018 toll revenues will likely be fully recovered by year-end and that forecasted revenue targets will still be met because of continued growth in traffic due to favorable economic conditions in Florida. Management is not anticipating any significant impact beyond the temporary revenues loss noted and we do not expect any material impact on liquidity or DSC as a result.

MDX was created in 1994 to operate and expand the existing system as well as build other regional transportation projects on an expressway system within Dade County. The 33-mile system includes five expressways running primarily east-west through the metropolitan Miami area. MDX is overwhelmingly an urban commuter system, with approximately 98% of revenue derived from two-axle vehicles. The five expressways include:

- SR 874 - Don Shula Expressway: Opened in 1974, running 7.2 miles, and connecting southwest suburban areas of the county;
- SR 924 - Gratigny Parkway : Opened in 1992, running 5.4 miles, and connecting Broward County via Interstate 75 and from the Palmetto Expressway in northwest Miami-Dade County to major arterials in northern Miami-Dade County, which connect to Interstate 95 (I-95);
- SR 878 - Snapper Creek Expressway: Opened in 1980, running 3.0 miles, and connecting SR 874 to US Highway 1;
- SR 112 - Airport Expressway : Opened in 1961, running 4.1 miles, and connecting Miami International Airport on the west to I-95 on the east; and
- SR 836 - Dolphin (East-West) Expressway : Opened in 1969, running 14.0 miles through downtown Miami, to Miami International Airport and the central and western parts of the county.

MDX has accomplished its goal in implementing ORT and removing toll plazas; all tolls are collected electronically via either SunPass transponder (the current electronic tolling system) or video tolling (toll-by-plate). This enables the authority to capture drivers who previously did not pay any toll. Three of the five expressways (Don Shula, Gratigny Parkway, and Snapper Creek) were converted to ORT in 2010. The last two, Airport Expressway and Dolphin Expressway, were fully converted to ORT, starting in November 2014 and completed in April 2016.

As a result of the final two expressways' conversion, revenue and transactions in 2015 increased by 41% and 50%, respectively, as well as 25% and 29% for fiscal 2016, respectively, compared with the same period a year earlier. Total revenue growth (including fee revenue) in fiscal 2017 has outpaced forecasts by about 4%. We expect the higher levels of revenue will be sustainable due to the systemwide shift to ORT.

Total DSC (S&P Global Ratings-calculated, based on combined senior and subordinate debt) was 1.8x in fiscal 2016, which was down from 2.0x in fiscal 2015 but still at a level we consider strong. MDX's annual debt service requirements are on an escalating schedule through 2026 but we are expecting DSC to remain near current levels based on forecast assumptions we believe are achievable. Audited fiscal 2017 figures show improved total DSC of 1.85x and senior-lien coverage of 2x. MDX's annual debt service requirement will increase about 12% from fiscal years 2018 to 2022.

Management projects DSC will be no less than about 1.8x for fiscal years 2018-2022, assuming average annual transaction growth of 2.4%, no toll increases, and approximately $150 million of additional debt near the end of 2019. In addition, based on our sensitivity analysis, which was based on flat revenue growth and no additional rate increases, we expect DSC to remain relatively strong. Our coverage calculations include debt service for authority's senior and subordinate obligations and exclude capital contributions from revenues because we only consider recurring revenues in our calculation, although the rate covenant allows the inclusion of capital contributions as a part of revenues. However, DSC for fiscal 2016 and beyond does not include capital contributions that the authority is not projected to make or receive.

Liquidity remains a key credit strength, and we expect this will continue. The 2016 audit reported $186 million or 1,269 days' cash on hand against that year's expenses. However, although on a days' cash basis liquidity remains a source of strength, we believe it is low compared to total debt, with the most recent audited figure representing about 12% of total debt. We expect the authority's unrestricted cash position will be maintained near current levels.

At a minimum the authority intends to maintain a rate stabilization fund balance of $29 million (that it established due to swaps exposure) and $100 million in the general fund. The authority closed fiscal 2016, on an unaudited basis, with $100 million in the general fund and $30 million in the rate stabilization fund. The authority is not planning to draw down to the minimum cash thresholds, but maintain cash slightly below current levels but still in an amount we would consider strong.

MDX's five-year work program (fiscal years 2018-2022) totals about $632 million, of which $564 million is for the transportation improvement program, $42.6 million for the renewal and replacement program, and $24.8 million for the capital improvement program (CIP). Expected funding sources include excess operating cash flow from the system, approximately $150 million of additional debt near the end of calendar 2019, renewal and replacement funds, and some unrestricted cash reserves. We expect the authority could use up to $50 million of commercial paper (CP) to provide bridge financing for certain CIP project costs. We expect it will repay the CP with cash on hand, not with long-term financing.

The authority has approximately $1.4 billion in principal outstanding, all of which is parity senior revenue bonds. Nearly 95% of its debt is fixed-rate. MDX has $80 million of direct purchase obligations outstanding, which have no acceleration provisions. The authority has one swap outstanding with JPMorgan Chase Bank N.A., which, as of Oct. 1, 2017, had a mark-to-market value of $18.2 million, not in favor of MDX. We consider the contingent liquidity risk from the remaining swap outstanding low, given the authority's strong liquidity position.

On July 1, 2017, the Florida Legislature signed into law legislation that made material changes to the Florida Expressway Authority Act that specifically applies to MDX. Key provisions included in the new law are:

- Requiring an independent traffic and revenue study for all toll increases;
- Limiting the amount of toll revenue that can be used for administrative expenses;
- Requiring a distance of at least five miles between main through-lane tolling points on future tolling points;
- Requiring a reduction in SunPass toll rates of 5%-10%;
- Dedicating at least 20%, but not more than 50%, annual surplus revenues to transportation- and transit-related expenses for projects in the area served by MDX; and

- Requiring accountability measures such as financial audit and regular website posting of important operational and financial information.

In addition, the legislation includes "savings" clauses that make the toll, operation, and maintenance amendments subject to requirements contained in debt obligations outstanding.

We don't expect the new law will have a material adverse effect on MDX's finances because we believe the presence of the "savings" clauses will not force MDX to implement many of these provisions since doing so would prevent it from complying with certain trust indenture provisions with existing bondholders. For example, the law requires a 5%-10% reduction in toll rates, which MDX did not implement since it would violate its transfer agreement, which is incorporated into its master indenture. The transfer agreement conveys to the authority the right, in perpetuity, of the financial controls, operations, and maintenance of the expressway system. Revenue from the system is pledged to the bondholders. In addition, this provision, which requires a dedication of at least "20% but not more than 50%" of annual surplus revenues to transit/transportation- related projects for the region, differs from the indenture flow of funds, would place the authority in non-compliance with its indenture. Lastly, any excess revenue would require MDX's governing board to approve projects before any net revenues would be contributed.

Outlook

The stable outlook reflects our expectation that management's forecast assumptions are reasonable and will continue to provide a revenue base that will allow MDX to maintain generally strong DSC and a strong liquidity position, despite rising debt service requirements and additional debt plans.

Upside scenario

Given the system's large capital needs, which include additional debt plans, we do not expect to raise the rating during the two-year outlook period.

Downside scenario

Although unlikely, we could lower the rating in the next two years if DSC and liquidity significantly erode.

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