FITCH PLACES MIAMI-DADE COUNTY EXPRESSWAY AUTHORITY, (FL)'S SENIOR REVS ON RATING WATCH NEGATIVE

Fitch Ratings-New York-17 April 2019: Fitch Ratings has placed the 'A' rating on Miami-Dade County Expressway Authority, (FL)'s (MDX) $1.39 billion outstanding revenue and refunding bonds on Rating Watch Negative.

The Negative Watch reflects an uncertain political environment surrounding current state legislation to repeal MDX and create a successor agency. If created, it is expected the successor agency will assume MDX's outstanding debt obligations; however, the new agency's financial flexibility and rate-setting autonomy may be substantially altered from MDX's current form, which, if lessened, could result in a 1-2 notch downgrade. Even without the repeal of MDX and the creation of a new agency, the concurrent House and Senate legislation as well as the recent rate reduction initiatives already indicate an unprecedented level of political intervention in MDX's ratemaking policies, potentially jeopardizing MDX's future autonomy.

KEY RATING DRIVERS

The 'A' rating reflects the essentiality of the MDX system to commuters in the Miami area, coupled with a demonstrated logistical proficiency with regards to managing system assets. Further, MDX exhibits effectiveness in executing expansion and maintenance-oriented capital planning while continuing an observed history of robust operating and financial performance. The system's recent implementation of the Open Road Tolling (ORT) system has expanded tolling and strengthened the system's financial profile, resulting in higher coverage and escalated deleveraging.

Stable Commuter Base With Strategic Importance: Revenue Risk: Volume - Stronger
The MDX system has a mature traffic profile with steady annual increases in toll transactions. Revenues are derived from a robust system of assets that provide critical links within the Miami-Dade transportation network. The availability of limited alternative routes ensures the importance of the system to the region. While the system has recently experienced large year-over-year increases in transactions due to the implementation of ORT on all expressways, growth is projected to level off in forthcoming years.

Moderate Price Flexibility: Revenue Risk: Price - Revised to Weaker from Midrange
Considerable legislative and political interference with MDX's rate-setting autonomy supports the revision to Weaker. The 2017 and 2018 state legislation resulted in the MDX board passing a motion to implement a system wide 6% toll rate reduction. Additionally, the board of directors repealed its Toll Rate Policy that required the board to review its toll rates every two years to determine if a CPI adjustment was needed. State involvement in MDX's rate setting process signifies a fundamental policy shift that causes uncertainty regarding future independent rate-setting ability both under MDX or a successor agency.

Good Physical Condition of Assets: Infrastructure & Renewal Risk - Stronger
MDX has maintained the system and its facilities in satisfactory operational conditions and maintains a robust roadway inspection schedule, above that required by the Florida Department of Transportation. The system's ongoing maintenance could potentially be affected by various pieces of state legislation, be it dissolving the Authority or maintaining MDX and requiring a portion of surplus revenues be allocated to other Miami-Dade county projects before replenishing MDX's own renewal and replacement reserves.

Some Exposure to Variable-Rate Debt: Debt Structure - Stronger
MDX's debt portfolio is mostly fixed rate with only 5% variable rate debt, the majority of which is hedged. The overall debt service profile is moderately escalating and the debt service reserve is cash funded at maximum annual debt service (MADS).

Peer Group
Central Florida Expressway Authority (CFA), rated 'A'/Outlook Stable is a comparable peer to MDX in terms of a large expressway system with a politically sensitive pricing environment, but MDX has a stronger volume profile. Debt service coverage ratios and leverage are comparable over the medium term.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
-- Legislation that creates a successor agency to MDX that materially negatively impacts cash flows supporting outstanding bonds;
-- An unclear long-term toll policy for MDX or limited ability to implement rate increases;
--Transferring meaningful surplus cash for non-project county uses that limit economic rate setting ability and limit investment in system assets on a timely basis;
-- Demonstrated lack of legal independent rate setting authority;
--Underperformance of traffic and revenue with an unwillingness or inability to adjust tolls accordingly, resulting in the erosion of the debt service coverage ratio below 1.6x for a sustained period;
--The addition of obligations that increase leverage above 8.0x.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
-- Revenue growth outpacing the sponsor's projections in an environment reflecting stable operations and limited additional capital expansion, leading to debt service coverage above 1.8x on a sustained basis.

CREDIT UPDATE

MDX's Outlook was revised to Negative last July (2018) reflecting the unprecedented intervention taken by the Florida State Legislature usurping local autonomy in order to lower MDX toll rates and divert surplus revenues to other Miami-Dade County project obligations. The Negative Outlook also reflected the uncertainty surrounding the long term impact the State's intervention may have on MDX's ability to allocate funds for capital expenditures in future years and issue additional debt. In addition, the Negative Outlook further encompassed uncertainty of future legislative actions that could affect MDX's independent rate making flexibility.

The tension between MDX and the Florida government around MDX's toll rates has continued to escalate since Fitch's last review, resulting in a House Bill (HB 385) and a Senate Bill (SB 898) both being presented to dissolve MDX and create a successor agency. Additionally, MDX has filed litigation against the state claiming previous 2017 and 2018 legislation is unconstitutional. HB 385 will be going to a floor vote within a week. The state's legislative session ends May 3, 2019.

If HB 385 or SB 898 moves forward, the successor agency will assume all assets and operations of MDX, along with its outstanding debt obligations. Primary changes between MDX and the agency include the composition of its governing body, an immediate 25% toll reduction to all SunPass holders that reside in the county, and a moratorium on toll rate increases for the next 10 years unless a rate increase is needed to comply with the bond rate covenant. Should either piece of legislation move forward, the creation of the successor agency could have a material negative impact to the cash flows and financial metrics supporting the outstanding MDX bonds, along with limiting investments in system assets on a timely basis.

Asset Description

MDX was formed in 1994 and is a public instrumentality and agency of the State of Florida. MDX is responsible for operating, maintaining and improving an expressway system that currently includes the Airport Expressway (SR-112), the East-West (Dolphin) Expressway (SR-836), the South Dade (Don Shula) Expressway (SR-874), the Gratigny Parkway (SR-924) and the Snapper Creek Expressway (SR-878).

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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

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