THE BOND BUYER

# Political interference brings new downgrade for Florida toll road agency

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**Published May 09, 2019**

Florida's "extreme" political meddling into the Miami-Dade County Expressway Authority's autonomy led a second rating agency to downgrade the authority's bond rating.

Fitch Ratings lowered its rating to A-minus from A, citing the "unprecedented degree of state political interference into the affairs of a local tolling authority" because of the Legislature's passage of House Bill 385.

**An open road toll gantry on the Miami-Dade Expressway Authority system in Florida. The authority has filed a suit challenging a state bill to dissolve the authority.**

Wednesday's downgrade affects $1.53 billion of outstanding revenue bonds and the authority's credit remains on rating watch negative.

HB 385 would dissolve the authority, also known as MDX, and create a new agency with the goal of lowering tolls through monthly rebates of 25% and placing a prolonged moratorium on toll rate hikes. It would remove current board members and the executive director, and prohibit them from serving on the new agency's board.

Although the bill makes exceptions for compliance with bond covenants, analyst Scott Monroe told The Bond Buyer that Fitch doesn't issue ratings solely because of minimum compliance with covenants.

Monroe said qualitative and quantitative factors are examined in the rating process, including the ability and willingness of an issuer to raise toll rates and plans to maintain assets and the resources to maintain them. Both of those factors are affected by HB 385, he said.

“What board in this environment is not going to lower toll rates or contemplate a toll increase when considering this political intervention, and…a statute [that] removes all the local appointees,” he said.

Fitch also examines debt service ratios and liquidity. Monroe said HB 385 potentially will have an impact on those factors “if this board follows the legislation's goals.”

“This is most unusual for there to be a level of political interference that rises to this level,” he said.

Monroe reviewed all of Fitch's toll road ratings from 2011 to today and “found no intervention to this degree,” he said.

On Sunday, the MDX filed a complaint for declaratory and injunctive relief challenging the validity of the legislation as a violation of Miami-Dade County's home rule charter, which enables the county to govern itself, and requesting the court to rule that the measure impairs MDX's contracts in violation of the state constitution.

The 26-page lawsuit, filed in Leon County Circuit Court, also requests an injunction barring enforcement of HB 385.

Miami-Dade County has been a home rule county since 1956, a status recognized in the state constitution that prevents the Legislature from passing bills that apply solely to Miami-Dade County, according to the complaint. The county commission created MDX as an independent special district in 1994.

The suit contends that the Legislature's bill violates a transfer agreement between MDX and FDOT, under which MDX purchased all rights and ownership of the expressways it operates.

A hearing on the suit is scheduled for Friday.

The Senate approved HB 385 by a vote of 23 to 16 on May 2. The House voted 79-28 for the bill the next day. If Gov. Ron DeSantis signs it, the bill would go into effect July 1.

While DeSantis hasn't said whether he supports the measure, Lt. Gov. Jeanette Núñez appeared on a local television station April 28 and said she supports the bill because it enacts "real reform" measures on MDX.

If the new agency is seated, Fitch said it may lower its ratings by more than one notch if, for instance, financial operations were managed to the legal rate covenant minimum of 1.2 times, and there were concerns over the quality of how assets were maintained. MDX's debt service coverage ratio has been solid, Monroe said, with levels near or above 2 times in each of the past four years.

"However, the legislatively proposed rate reduction causes the authority's financial profile to weaken markedly with a 10-year average rating case debt service coverage ratio of 1.4 times assuming no debt issuances," Monroe said. "If the authority were to additionally issue approximately $1 billion, as previously envisioned by MDX, Fitch projects DSCR would fall below 1 time for an extended period."

Fitch said it would continue to monitor the situation in Florida, to determine if the Legislature's action would have "spill-over political influence" on Florida's other toll road authorities.

S&P Global Ratings lowered its rating to A from A-plus on the authority's toll revenue bonds on May 1, and revised the outlook to negative. S&P said the downgrade was the result of lawmakers passing bills in 2017 and 2018 ordering changes and toll reductions at MDX, and because of HB 385.

Moody's Investors Service hasn't lowered its A1 rating, but has warned Florida lawmakers about the negative consequences that may befall MDX if the bill usurping the agency's decision-making power becomes law.