FitchRatings

RATING ACTION COMMENTARY

# Fitch Affirms Central Florida Expressway Auth's Sr Revs at 'A+', TIFIA Loan at 'A'; Outlook Negative

Wed 22 Jul, 2020 - 3:31 PM ET

Fitch Ratings - New York - 22 Jul 2020: Fitch Ratings has affirmed the 'A+' rating on Central Florida Expressway Authority's (CFX) (former Orlando-Orange County Expressway Authority) approximately $3 billion senior revenue bonds and the 'A' rating on its approximately $196 million subordinated federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. The Rating Outlooks are Negative.

## RATING RATIONALE

Summary: The ratings reflect the essentiality of the CFX system to commuters and visitors in the Orlando area, coupled with a demonstrated willingness and ability to implement toll increases even during challenging economic times. The upcoming capital plan, while sizable and requiring additional borrowing, is manageable and will serve to enhance the essentiality of the system.

The Negative Outlook reflects narrowed combined senior and subordinate debt service coverage ratios (DSCR) of 1.5x, under Fitch's rating case, which are weak for the rating level. In addition, recovery and return to sustained growth in the Orlando area could be prolonged due to the regional economy's dependence on the hospitality and leisure sector. The Outlook could return to Stable if coverage levels stabilize above 1.7x senior and 1.5x subordinate due to faster recovery than in the rating case and by timing new debt issuances for capital needs to coordinate with resumed revenue growth. Although CFX's out-year financial profile indicates some tightening of credit metrics, its liquidity position is strong and Fitch views the system as well-positioned to meet its short-term debt service and other expenditure obligations.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for the toll road sector. Material changes in revenue and cost profile are occurring across the toll road sector and will continue to evolve as economic activity and government restrictions respond to the ongoing situation. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the severity and duration of the virus outbreak, and incorporate revised qualitative and quantitative inputs in its cases based on expectations for future performance and assessment of key risks.

## KEY RATING DRIVERS

Established Road Network in Robust Service Area (Revenue Risk: Volume - Stronger): CFX's roadway system is a critical component of the Orlando area's transportation network, supporting a largely commuter traffic base. Fitch views current toll rates (about $0.16/mile for cars) as moderate and considers CFX to have reasonable ratemaking flexibility. The July 2019 toll increase of approximately 2% did not have a significant effect on traffic.

Proven Ability to Manage Tolls (Revenue Risk: Price - Stronger): CFX successfully implemented toll increases through the recent recession and, furthermore, implemented its first planned CPI-linked toll increase in July 2012. In response to strong performance, the board amended its toll policy in February 2017 to increase toll rates each year by the greater of CPI or 1.5% beginning in fiscal 2019 as opposed to the previous plan with CPI-linked increases every five years. Under the new policy, the toll rate increased by approximately 2% in July 2018 and 2019. Fitch views the amended policy as favorable, as incremental increases may be better accepted publicly compared to one-time larger hikes. CFX has unlimited legal rate-making authority and can increase rates as needed.

Manageable Capital Plan (Infrastructure Development and Renewal: Stronger): CFX has maintained its facilities to a high standard, with robust historical financial performance supporting a sizable portion of pay-as-you-go and debt-funded capital investment. CFX's current $2.7 billion five-year capital program is considerable, with approximately 45% of projects expected to be funded with debt. Approximately $928 million is allocated for expansion projects, 89% of which is spent towards the end of the plan period from 2023 through 2025. The authority has a proven track record of delivering capital improvements and the flexibility to defer nonessential capital needs if needed in a weaker revenue environment.

Moderate Debt Escalation, Counterparty Exposure (Debt Structure: Senior - Stronger (revised from Midrange); Junior Lien - Midrange): CFX's senior debt is currently 84% fixed rate, with the remainder in synthetically fixed mode. The Stronger assessment reflects the senior ranking and accompanying strong structural terms. The debt service reserve requirements are met with $125 million in cash and $100 million in the form of surety backing. The authority has also established a $160 million cash reserve for debt management and future debt reserves are expected to be fully cash-funded. The fixed rate, fully amortizing TIFIA loan does not feature a 'springing lien' mechanism, ensuring that it remains fully-subordinated to senior debt in all circumstances. Including debt issued for capital needs, senior debt service grows at an approximately 3% CAGR through maximum annual debt service (MADS) of $323 million in fiscal 2035 before declining as debt amortizes.

Financial Profile

Fiscal 2019 coverage was strong at 2.3x senior and 2.2x subordinate. With the inclusion of stresses related to the coronavirus, Fitch's 10-year rating case DSCRs average 1.5x senior and 1.5x subordinate. Leverage increases to 8.5x senior and 9.0x subordinate in fiscal 2024 from 5.4x senior and 6.0x subordinate in fiscal 2019 as new debt is issued for the capital plan. Fitch's breakeven analysis suggests that CFX is not dependent on revenue growth in order to service debt based on its existing operating and financial profile.

## PEER GROUP

Comparable peers include other large expressway systems such as Miami Dade Expressway (MDX, BBB+/Outlook Negative) and Massachusetts Department of Transportation (MassDOT), Metropolitan Highway System (MHS, A+/Outlook Stable). Both MDX and CFX service large, growing service areas in Florida, and have experienced significant expansion over recent years. CFX has autonomy over rate setting whereas the rate setting autonomy of MDX has been challenged by the Florida State Legislature's intervention to decrease tolls. Greater rate-making flexibility and higher coverage levels contribute to CFX's higher rating than MDX. Compared to CFX, MHS has similar leverage but higher coverage remaining above 4x in the Fitch rating case.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--A positive rating action is not expected in the near future given uncertainty regarding recovery;

--A return to a Stable Outlook and affirmed ratings could be possible in the next one to two years if Fitch sees sustained recovery in traffic and revenues due to the easing of the pandemic, resulting in stabilized credit metrics in line with indicative guidance.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--A decline in operating performance and/or additional borrowing that pressures senior and total DSCR consistently below 1.7x and 1.5x levels, respectively in the Fitch rating case forecast.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

## CREDIT UPDATE

Performance Update

CFX's traffic decreased 7.7% in fiscal YTD 2020 (July through May) due to the coronavirus shutdowns that commenced in mid-March and the suspension of tolls for five days in September due to Hurricane Dorian. Traffic declines peaked at approximately 55% in mid-April, which is of similar magnitude to declines related to the coronavirus on other Fitch-rated toll roads. Traffic has been increasing in the Orlando region in recent weeks although growth could be hampered if restrictions are tightened in response to Florida's current surge in coronavirus cases. Prior to the coronavirus, traffic growth was strong at 5.7% for the eight months year to date through February.

Net toll revenues declined by 4.6% yoy for fiscal year-to-date 2020. The revenue related to the coronavirus decline since March was partially offset by net revenue growth of 8.9% yoy through February due to traffic growth, the 2% toll increase in July 2019, and approximately 1% of net revenues added from the Poinciana Parkway acquisition in 2019. Performance in fiscal 2019 exceeded Fitch's expectations with net toll revenue growth of 4.9% and traffic growth of 3.5%, reflecting strong economic conditions.

CFX's Operations, Maintenance and Administration (OM&A) expenses increased by 4.7% yoy for fiscal YTD 2020 (pre FDOT advances and excluding reserve deposits) but were lower than budget. The increase was largely due to greater expenses for image review associated with pay by plate (PBP) transactions. OM&A increased by 13.2% yoy for fiscal YTD 2019 (pre FDOT advances and excluding reserve deposits), but were lower than budget. The growth in expenses is due to greater O&M expenses for the Wekiva Parkway and increased expenses for the E-PASS service center due to increased traffic.

The proportion of PBP transactions has been steadily increasing to over 9% in fiscal 2019 from less than 1% in fiscal 2010. As of July 1, 2020 the PBP toll rate was increased to twice the electronic toll collection (ETC) toll rate, which is expected to reduce the growth in PBP transactions and induce customers to switch to ETC. It benefits CFX to reduce the proportion of PBP transactions due to leakage and higher costs to collect revenue for PBP transactions than for ETC.

## FINANCIAL ANALYSIS

Fitch Cases

Fitch's rating case incorporates an approximately 6% decline in revenue in fiscal 2020 (YE June) based on YTD performance reflecting declines related to the coronavirus. Revenues continue to decline by approximately 7% in fiscal 2021 followed by approximately 13% growth in fiscal 2022. Thereafter, revenue increases by roughly 3% annually. OM&A equals management's projection in 2020 and budget in fiscal 2021, followed by 5% growth in 2022 and 4.5% annual growth thereafter. Fitch incorporated the expected additional $1.2 billion in senior debt issued from fiscal 2020 through 2034. Under these assumptions, the 10-year DSCRs (2020-2029) average 1.5x senior and 1.5x subordinate.

Fitch also ran two coronavirus sensitivity cases. In the coronavirus downside case, toll revenue continues to decline in fiscal 2021 by approximately 21%. Revenue grows by approximately 31% in fiscal 2022 and 5% in 2023 followed by approximately 2.5% annual growth thereafter. Expenses are the same as in the rating case. Under these assumptions, the 10-year DSCRs average 1.5x senior and 1.4x subordinate. In the Fitch coronavirus severe downside case, revenue continues to decline in fiscal 2021 by approximately 31%, followed by recovery spread over 2022-2025. Expenses decline and increase with revenue growth to reflect the corresponding changes in variable costs before returning to 4.5% annual growth in fiscal 2025. In this scenario, the 10-year DSCRs average 1.3x senior and 1.3x subordinate. Fitch recognizes that if operating performance were to match these downside scenarios, CFX would reduce operating expenses and new debt issuances, which is not taken into account in the case assumptions.

## SECURITY

The senior bonds are secured by a pledge of, and lien on, CFX System Revenues net of Operations, Maintenance and Administrative Expenses. The TIFIA loan is secured by a junior lien pledge of, and lien on, CFX System Revenues net of Operations, Maintenance and Administrative Expenses.

Asset Description

CFX is an independent authority that maintains, constructs and operates a system of toll roads in Seminole, Lake, Osceola, Orange and Brevard counties. The system is comprised of eight expressways: the Beachline Expressway (SR 528), the East-West Expressway (SR

408), the Central Florida GreeneWay (SR 417), the Western Beltway/Wekiva Parkway (SR 429), the Apopka Expressway (SR 414), the Western Beltway Connector (SR 451), SR 453, and Poinciana Parkway (SR 538).

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

## RATING ACTIONS

| ENTITY/DEBT | RATING | PRIOR |
|---|---|---|
| Central Florida Expressway Authority (FL) | | |

| ENTITY/DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| • Central Florida | LT | A Rating Outlook Negative | Affirmed | A Rating Outlook |

VIEW ADDITIONAL RATING DETAILS

## FITCH RATINGS ANALYSTS

**Anne Tricerri**
Director
Primary Rating Analyst
+1 646 582 4676
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York 10019

**Victoria Babcock**
Senior Analyst
Secondary Rating Analyst
+1 646 582 4608

**Seth Lehman**
Senior Director
Committee Chairperson
+1 212 908 0755

## MEDIA CONTACTS

**Sandro Scenga**
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

## APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.1.2 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| Central Florida Expressway Authority (FL) | EU Endorsed |
| Orlando-Orange County Expressway Authority (FL) | EU Endorsed |

## DISCLAIMER



**READ LESS**

## COPYRIGHT

shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

**READ LESS**

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Industrials and Transportation    US Public Finance    Infrastructure and Project Finance

North America    United States