Miami-Dade County Expressway Authority, Florida; Toll Roads Bridges

Primary Credit Analyst:
Kevin R Archer, San Francisco + 1 (312) 233 7089; Kevin.Archer@spglobal.com

Secondary Contact:
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph.pezzimenti@spglobal.com

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Long Term Rating	A/Negative	Downgraded
Miami Dade Cnty Expwy Auth toll (AGM)		
Unenhanced Rating	A(SPUR)/Negative	Downgraded
Miami Dade Cnty Expwy Auth toll sys rev		
Unenhanced Rating	A(SPUR)/Negative	Downgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has lowered its rating on the Miami-Dade County Expressway Authority (MDX), Fla.'s toll revenue bonds outstanding to 'A' from 'A+'. The outlook is negative.

The downgrade reflects the application of S&P Global Ratings updated rating criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises", published March 12, 2018. In addition, the rating action reflects legislative interventions we believe constrain MDX's toll rate setting autonomy, constrain management flexibility, and create a high degree of uncertainty regarding operations. More specifically, the negative outlook reflects the potential that we could lower the rating further. The Florida legislature's persistent political interference has created an increasingly challenging operating environment for the authority, in our opinion, weakening our confidence in the authority to maintain margins consistent with its current rating, if the authority's capacity to increase toll rates or maintain its capital infrastructure is further diminished. Most traffic movement across MDX's system was toll-free, then MDX decided to close the system, tolling the majority of its traffic. We believe this drastic change put into motion various forms of opposition, including subsequent toll rate reductions and political interference. This situation, however, underscores the credit risks that can emerge in connection with significant changes to tolling policy.

The rating reflects the combination of the authority's strong enterprise risk profile and financial risk profiles. Our enterprise risk profile assessment incorporates the MDX's strong traffic trends due to the authority's important role and strategic location, despite some competition from toll-free roads. Our market position assessment is offset by limits on the authority's pricing power due to recent legislation enacted in 2018 requiring the MDX to reduce toll rates, and current legislation that is considering further toll rate reductions. Our financial risk profile assessment considers the MDX's strong revenue growth from recent toll rate increases and favorable traffic, offset by the aforementioned recently enacted legislation as well as the current proposal, which materially constrain MDX's flexibility to independently adjust its toll rates.

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

- 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 the Miami-Fort Lauderdale-West Palm Beach metropolitan statistical area (MSA) despite nontolled alternatives, offset by constrained rate setting flexibility given recent intervention by the state of Florida to reduce MDX toll rates in 2018 and existing legislative proposals that may require further rate reductions;
- 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
- Vulnerable management and governance, reflecting the negative impact of recent state legislation on the effectiveness of the organization and the authority's inconsistent strategies and enterprise capabilities in light of the recent constraints placed on MDX's rate setting autonomy.

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

- Adequate financial performance that reflects the authority's historically strong total debt service coverage (DSC; S&P Global Ratings-calculated) that has been well above 1.25x, offset by constrained rate setting flexibility;
- Very strong debt and liabilities capacity, reflecting our expectation the MDX will adjust its capital spending to maintain debt to net revenues below 10x; and
- Very strong liquidity and financial flexibility, based on our expectation that the MDX will maintain its liquidity position--745 days' cash on hand and 7.8% of debt in fiscal 2018. Although we expect the authority to cash fund a portion of its capital improvement plan (CIP), we still expect it will maintain liquidity and financial flexibility we consider very strong.

Net revenues of the MDX toll system secure the authority's toll road revenue bonds. The authority has approximately $1.4 billion in principal outstanding, all of which is parity senior revenue bonds. Almost 95% of its debt is fixed-rate. MDX has $78 million of direct-purchase obligations outstanding, which have no acceleration provisions.

MDX was created in 1994 to operate and expand the existing system and 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:

- Don Shula (South Dade) Expressway (SR 874): Opened in 1974, running 7.2 miles and connecting southwest suburban areas of the county;
- Gratigny Parkway (SR 924): 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);
- Snapper Creek Expressway (SR 878): Opened in 1980, running 3.0 miles and connecting SR 874 to U.S. Highway 1;
- Airport Expressway (SR 112): Opened in 1961, running 4.1 miles and connecting Miami International Airport on the west to I-95 on the east; and

- Dolphin (East-West) Expressway (SR 836): Opened in 1969, running 14.0 miles through downtown Miami, to Miami International Airport and the central and western parts of the county.

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. Among the provisions, the law required a reduction in SunPass toll rates of 5%-10%. However, MDX did not implement any rate reductions, as it considered such action not compliant with certain trust indenture provisions with existing bondholders.

Additional legislation passed in 2018 (HB 141) further amended the Florida Expressway Authority Act to require MDX, as mandated by the governor's office, to reduce SunPass toll rates by a minimum of 5%, as prescribed in the 2017 legislation. If the required rate reduction did not take place, effective Oct. 31, 2018, the existing MDX board would be dissolved and, except for the Florida Department of Transportation district secretary, a new board would be appointed by the governor and the Miami-Dade County Commission. On May 29, 2018, the MDX board voted to reduce toll rates across the entire MDX system by approximately 6% effective July 1, 2018. This reduction is expected to result in a toll revenue decline of approximately $15.7 million in fiscal 2019.

In late October 2018, MDX filed suit against the state of Florida arguing that its actions violate the authority's transfer agreement and its existing bond indenture. This litigation is still pending and no resolution has been reached.

Most recently, House Bill 385 (HB 385) passed on April 17, 2019, that would require a 25% reduction of existing toll rates, and dissolve the MDX and replace it with a new organization called the Greater Miami Expressway Agency with a new board and executive director. The new authority would assume MDX's debt and would be prohibited from increasing toll rates for the next 10 years, including the CPI indexing which is to begin on July 1, 2019. Senate Bill 898 (SB 898) has proposed similar provisions and is set to head to the Senate floor by May 3 for a vote.

The current legislative sessions closes on May 3. If any bill were to pass, the governor would have 14 days to review and decide to sign it into law. If no action is taken, the bill becomes law on July 1. MDX has indicated that, if these bills were to become law, it would appeal and challenge their legitimacy, which could further delay the implementation of this potential new law.

We view the mandated 2018 toll rate reduction as an unprecedented intrusion on the MDX's autonomy to freely set its toll rates and independently determine its financial future. Therefore, we believe that this reduces the authority's pricing power, which is a negative consideration in our market position and financial performance assessments of the MDX. If the legislative proposals are enacted, the current toll rate policy and the MDX's broader rate setting autonomy will be significantly modified, leading to potentially weaker assessments.

Outlook

The negative outlook reflects our expectation that we could lower the rating within the next two years if the proposed legislation, similar legislation, or other actions, if enacted and enforced, further limit MDX's rate setting flexibility and, in turn, its financial capacity to address rising debt service requirements and additional near-term debt plans.

Return to stable scenario

We could revise the outlook to stable during the two-year outlook period if MDX's rate setting flexibility is not further constrained and we believe the authority is able to manage its large capital plan while maintaining financial metrics near historical levels.

Enterprise Risk

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

Economic fundamentals

The primary service area, the Miami-Fort Lauderdale-West Palm Beach MSA, has extremely strong economic fundamentals due to favorable income levels and economic activity as measured by GDP per capita, a large population base, above-average expected population growth, and average unemployment levels.

We consider the MSA's economy broad and diverse. The region serves as an international trade hub and a regional business, financial, and health care center for south Florida and Central and South America. According to IHS Global Insight, the city of Miami has among the highest concentrations of employment in wholesale trade, warehousing, and transportation services nationally. The city also serves as a tourism destination and hub for south Florida.

Market position

We consider the authority's overall market position strong, reflecting its important role as a regional infrastructure provider, with critical transportation links in the Miami MSA. This is offset by constrained rate setting flexibility given recent intervention by the state of Florida requiring MDX to reduce toll rates in 2018 and existing legislative proposals that may require further rate reductions.

Because of the system's important role and strategic location, it has exhibited resilient and favorable traffic trends. From 2009-2018, a period that included the Great Recession, a spike in fuel prices, and frequent rate increases, MDX traffic levels increased an average of 2% a year, excluding years in which large transaction growth occurred due to an expansion of tolling within the system; inclusive of those years, the 10-year growth rate is an average of 18%.

MDX has accomplished its goal to implement open road tolling (ORT) and remove toll plazas; all tolls are collected electronically via either SunPass (the current electronic tolling system) or video tolling (toll-by-plate). This enables the authority to capture drivers who don't currently pay. 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 more recently, with the conversion's completion in April 2016.

Management and governance

The authority's management and governance, in our opinion, is vulnerable, reflecting the negative impact of recent legislation on the effectiveness of the organization and the authority's inconsistent strategies and enterprise capabilities in light of the recent constraints placed on MDX's rate setting autonomy.

In addition, management has adopted a variety of financial policies, including a debt management policy, and toll rate management policy. We consider these types of codified arrangements, as currently stated, prudent in managing operations.

Financial Risk Profile

Our assessment of the MDX's financial risk profile as strong incorporates the authority's financial performance, debt and liabilities capacity, and liquidity and financial flexibility. We base our financial profile risk assessment on a combination of historical and pro forma figures, which reflect that key financial metrics could be maintained near current levels under current toll rates but would be worsened if the proposed legislation to reduce toll rates were implemented. Our financial profile assessment also considers the authority's financial policies, which we view as credit neutral.

Currently, in accordance with the MDX's board-adopted toll rate policy, each year beginning July 1, 2019, the authority will increase tolls for electronic toll collection customers by the greater of CPI or 1.5%, and cash customers will remain at least 10% higher. Historical revenue growth over the past 10 years averaged 8.3% per year. However, the current legislation discussed above--both HB 385 and SB 898--would freeze toll rates for 10 years.

Financial performance

Average total DSC, as per our calculations, which includes combined senior and subordinate lien obligations, for fiscal years 2016-2018 was 1.96x and well within a range we would consider strong. Our DSC calculations include the authority's audited financial results reported on a generally accepted accounting principles basis, adding total operating revenues, interest income, subtracting total operating expenses net of depreciation, and then dividing by annual total debt service. However, our overall assessment of financial performance is adequate due to our current view of the authority's toll rate setting flexibility as constrained.

MDX's annual debt service requirements are on an escalating schedule through 2026 and it plans to issue approximately $1.1 billion in additional debt between 2020-2024. However, future borrowing could be significantly scaled back if toll rate setting were to be further constrained.

Debt and liabilities capacity

The MDX's debt capacity, in our review, is very strong, reflecting our expectation that MDX will maintain debt to net revenues below 10x. MDX could issue approximately $1.1 billion in the near-to-medium term if its toll rating flexibility is not further constrained. The MDX's debt to net revenues in fiscal 2018 is 7.2x, and just below 10x over the next five years including planned additional debt, if current toll rates are maintained.

The authority has approximately $1.4 billion in principal outstanding, all of which is parity senior revenue bonds. Almost 95% of its debt is fixed-rate. MDX has $78 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 Dec. 31, 2018, had a mark-to-market value of $13.2 million, not in favor of MDX. We consider the contingent liquidity risk from the remaining swap outstanding low, given low collateral posting requirements and the authority maintaining a rate stabilization fund of at least $29 million to mitigate its exposure to its swap portfolio.

MDX's five-year work program (fiscal years 2019-2023) totals about $1.2 billion, of which $1.04 billion is for the transportation improvement program, $60.5 million for the renewal and replacement program, and $100 million for the capital improvement program. Expected funding sources include excess operating cash flow from the system, approximately $1.1 billion of additional debt, renewal and replacement funds, as well as some unrestricted cash reserves. We expect the authority could use up to $100 million of commercial paper (CP) to provide bridge financing of certain CIP project costs. We expect it will repay the CP with cash on hand, not long-term financing. Funding for these projects may be total or partial depending on the phase of the project and the availability of funds. Therefore, changes are made on an annual basis as priorities are re-evaluated, projects are completed, new projects are identified, and the financial capabilities of MDX evolve.

Liquidity and financial flexibility

In our assessment of the MDX's liquidity and financial flexibility, we consider the authority's historical liquidity position and plans to cash fund a portion of its CIP. For audited fiscal year-end 2018 (June 30), MDX's unrestricted cash and investments balance totaled almost $112 million, which equates to a very strong 745 days' cash on hand and an adequate 7.8% of debt. The authority has a long history of maintaining relatively high cash reserves. Although we expect MDX to draw on its cash reserves to address some of its CIP funding needs, we are still expecting its overall liquidity and financial flexibility to remain very strong.

We expect the authority to maintain a rate stabilization fund balance of $29 million to mitigate exposure to its swap portfolio. The current balance of the fund is approximately $30 million. This fund is not included in our calculation of unrestricted cash and investments since it is considered restricted on MDX's financial statements. '