FitchRatings

FITCH AFFIRMS MIAMI-DADE COUNTY EXPRESSWAY AUTHORITY, (FL)'S REVS AT 'A'; OUTLOOK STABLE

Fitch Ratings-New York-30 June 2017: Fitch Ratings has affirmed the 'A' rating on MDX's $1.45 billion outstanding revenue and refunding bonds. The Rating Outlook on all senior rated bonds is Stable.

KEY RATING DRIVERS

Summary: 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 expansionary and maintenance oriented capital planning while continuing an observed history of robust operating and financial performance. The system's recent implementation of the ORT system has expanded tolling and strengthened the system's financial profile, resulting in higher coverage and escalated deleveraging. In addition, the rating incorporates uncertainty regarding future financial flexibility given the recent enactment of state legislation that potentially requires a 5% to 10% reduction to SunPass toll rates, which could create additional political pressure on MDX's rate-making flexibility.

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: Midrange]:
MDX's adopted toll policy indexes toll increases to the consumer price index (CPI) beginning in fiscal 2019. However, the recently enacted state legislation that targets a reduction in toll rates of FL expressway systems may signify a fundamental policy shift that causes uncertainty regarding future independent rate-setting ability. While management has stated MDX is exempted from the legislation in that it is superseded by bond document compliance, it remains to be seen how the legislature will affect MDX's rate-setting flexibility.

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. MDX has a moderate five-year work program at $ 631.7 million through fiscal 2022.

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).

Moderate Leverage and Healthy Financial Metrics: Financial metrics for fiscal 2017 are expected to be consistent with recent historical performance, as supported by strong year-to-date performance through April 2017. Leverage (net debt/CFADS) was 6.9x at fiscal year-end 2016, a decrease from the prior yearend due to an increase of revenues supported by higher transactions from the roll out of ORT. Leverage is estimated to average around 6x through fiscal 2026. Debt service coverage was 2.2x in fiscal 2016 and averages 1.7x through fiscal 2026 based on Fitch's rating case, not including potential additional debt.

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, and both have strong volume profiles. 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:

--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.

--An unclear long-term toll policy and/or the implementation of substantial toll reductions.

--The addition of obligations that increase leverage above 8.0x or divert excess revenues will weaken the credit.

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

Performance Update

MDX benefited from the first full year of 100% electronic toll collections on the Open Road Tolling (ORT) system. System wide transactions were up 28.6% to approximately 472 million in fiscal 2016, from 366 million in fiscal 2015. SunPass accounts were approximately 70% of transactions while toll by plates accounted for 30%. Historically, SunPass transactions have accounted for the largest amount of transactions, followed by Toll-by-plate, which has exhibited increasing growth since fiscal 2014. Fitch estimates transactions to reach 490,460 in fiscal 2017, which incorporates ten-months of actual performance. Approximately 71% of system wide transactions remains concentrated along the Dolphin Expressway (SR836) and Don Shula Expressway (SR874) at 46% and 24%, respectfully.

Total operating revenues grew by 28% to about $235 million in fiscal 2016, up from $183 million in fiscal 2015, primarily benefiting from the continued implementation of ORT. SunPass accounts generated approximately 80% (or $178,887 million) of total toll revenues and 20% ($45,073 million) from toll-by- plate billing. Actual performance through fiscal 2017 shows total revenues slightly outperforming budget expectations by 2.26% or $4.5 million due to a higher than budgeted amount of fees revenue and interest income, whereas toll revenues minimally grew in comparison with budget expectations.

Operating expenses rose by 18% to $53 million in fiscal 2016 reflecting increases in O&M expenses from FDOT pass-through processing charges for SunPass accounts, professional contracted services, and facility maintenance services due to system wide implementation of the ORT. Operating expenses in recent years have grown at levels due to the higher costs associated with ORT ramp up. Actual performance of expenses through fiscal 2017 is under budget by 6.4%, reflecting expenses returning to more historic levels since the tolling expansion project have been completed. Management expects future expenses to increase at an approximate inflationary rate in the medium term.

Effective July 1, 2017, the state legislation requires MDX and other expressways in FL to reduce SunPass toll rates by 5-10%, among other requirements. Management maintains the view that they are exempt from the bill on the basis that the legislature is contrary to their bond indenture and has submitted a request for clarification to the Office of Florida's Attorney General. Given the expressway's operating and capital needs in a congested and growing area, a strategic and reliable toll policy is an important credit consideration. Fitch will continue to monitor ongoing developments in regards to MDX's exemption from the legislation and its overall toll-setting ability and policy.

MDX's fiscal 2018 to fiscal 2022 work plan is $631.7 million. The budgeted amount is reflective of a larger $1.3 billion project costs which includes 43 projects. Nearly 50% of the work plan is completed with the remaining projects expected to be finished through fiscal 2023. The final year only accounts for 2% of the total project costs, but the bulk of construction work will occur during the next 5-years. MDX expects to fund the program through existing bond proceeds, cash funded general reserves, and excess cash flow derived from net revenue after debt service.

Fitch Cases

Fitch's base case assumes a 4% increase to traffic volume, based on an annualized calculation reflecting ten-months of actual performance for fiscal 2017, followed by a 0.5% cut to traffic volume and toll revenues through 2026. Operating expenses adopts budget expectations in fiscal 2017, and then increases by a CAGR of 3.2% through fiscal 2026. Under Fitch's base case, the debt service coverage ratio (DSCR) in fiscal 2017 is 2.0x, then averages 1.8x through fiscal 2026. Leverage (net-debt/CFADS) averages 5.6x during the same period.

Under Fitch's rating case scenario, a 7% revenue stress is applied in fiscal 2018, reflecting the impact of state legislation that potentially requires a 5-10% decrease in MDX's toll rates, followed by 2% annual growth in FY2019 through fiscal 2026 reflecting annual traffic volume growth that approximately tracks inflation. Operating expenses are grown by 3.5% annually. Under Fitch's rating case, the average debt service coverage ratio is 1.7x through fiscal 2026 and leverage averages 6.0x, not including potential additional debt. Inclusive of a potential $80 million debt issuance, the average debt service coverage ratio will decrease marginally to 1.6x and leverage will peak after issuance at 7.3x.

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).

Contact:

Primary Analyst
Stacey Mawson
Director

+1-212-908-0678
Fitch Ratings, Inc.
33 White Hall Street
New York, NY 1004

Secondary Analyst
Chad Lewis
Senior Director
+1-212-908-0886

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

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)
https://www.fitchratings.com/site/re/882594
Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016)
https://www.fitchratings.com/site/re/886038