Fitch Ratings

Fitch Downgrades Miami-Dade Co Expressway Auth (FL)'s Sr Revs to 'A-'; Rating Watch Remains Negative

Fitch Ratings-San Francisco-08 May 2019: Fitch Ratings has downgraded Miami-Dade County Expressway Authority, Florida's (MDX) $1.39 billion of outstanding revenue and refunding bonds to 'A-' from 'A'. The Rating Watch remains Negative.

The downgrade to 'A-' reflects legislative passage of House Bill 385 (HB 385; the bill) that dissolves MDX and calls for substantially lower tolls with a prolonged moratorium on rate hikes, thus reflecting the culmination of an unprecedented degree of state political interference into the affairs of a local tolling authority. The authority's financial profile could deteriorate sharply from current levels, resulting in further negative rating action if the bill is ultimately signed by the governor and upheld by the courts. Even if the bill were vetoed or judicially overturned, Fitch believes MDX has been subjected to a severe level of political scrutiny and interference that make future independent toll setting authority and capital planning extremely limited.

If MDX is ultimately dissolved, Fitch would seek clarification from the incoming board as to their policy goals with regard to toll rates, finances, maintenance, capital planning and other factors. It is possible the rating could fall by more than one notch if, for instance, financial operations were managed to the legal rate covenant minimum of 1.2x with knock-on concerns over asset maintenance. Alternatively, the rating could stabilize at the existing 'A-' level if the board enacted policies that maintain MDX's currently solid financial and capital funding position and reject calls to lower rates. Fitch will continue to monitor the situation and incorporate future material credit events as they arise.

KEY RATING DRIVERS

Summary: The rating reflects the essentiality of the MDX system to commuters in the growing, large, diversified Miami area, the maturity of the system's traffic profile, a conservative debt profile, and a limited degree of competition. These strengths are offset by the weak pricing framework as described above and a lack of clarity over how the authority would fund maintenance and the Kendall Parkway capital project, a priority for the legislature, amongst other capital projects should tolls be lowered as the bill prescribes.

Governing Board and Policy Uncertainty: Ownership and Sponsors - Negative
Uncertainty over which individuals would replace the governing board's outgoing members, their policy preferences and risks unique to the transition period result in a negative assessment of the authority's governance structure. Should control ultimately reside with the current governing body, or if the new governing body proves to govern effectively and prudently, the ownership and sponsors

rating factor would likely return to neutral.

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.

High Levels of Political Interference: Revenue Risk: Price - Weaker
The dissolution bill approved by the legislature effectively strips the authority of meaningful rate-setting autonomy and bars the five sitting board members who were locally appointed from serving on the successor board. The bill bans toll rate hikes for five years unless necessary to comply with bond covenants and calls for an additional five years of no rate hikes, which can be overturned with a supermajority of the governing board. Thereafter toll rate hikes must be approved by a two-thirds vote of the governing body in perpetuity.

Elevated CIP and Funding Uncertainty: Infrastructure & Renewal Risk - Revised to Midrange from Stronger
The revision of the infrastructure score to Midrange from Stronger reflects uncertainty over the authority's capital and funding plans in light of HB 385, a new requirement that debt-financed capital projects receive approval from the Legislative Budget Commission, which could politicize capital planning, and concerns that funding for the authority's capital plan would be significantly impaired if tolls were to fall as prescribed by the bill, which could lead to greater dependence on future borrowings or a weakening of the currently strong asset maintenance regime. Additionally, the system's ongoing maintenance could potentially be affected, as a portion of surplus revenues must be allocated to other Miami-Dade county projects before replenishing MDX's own renewal and replacement reserves. These concerns are partly mitigated by the facilities' satisfactory operational condition.

Some Exposure to Variable-Rate Debt: Debt Structure - Stronger
The authority'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).

Financial Profile
The authority's financial profile historically has been solid, with actual historical DSCR near or above 2.0x 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 (DSCR) of 1.4x assuming no debt issuances. If the authority were to additionally issue approximately $1 billion, as previously envisioned by MDX, Fitch projects DSCR would fall below 1.0x for an extended period. Although Fitch does not expect GMX to pursue the full CIP as previously planned or expect the rate covenant would be violated for an extended period, the authority's financial operations could ultimately be managed at or near minimum legal covenants, which would mark a significant departure from prior financial management practices.

Peer Group
Central Florida Expressway Authority (CFA), rated 'A'/Outlook Stable is a comparable peer with MDX in terms of a large expressway system with a politically sensitive pricing environment. Although MDX has a stronger volume profile, it has a significantly weaker pricing framework. Rating case DSCR and leverage for MDX have weakened compared with CFA, resulting in a lower rating level.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
-- The inability of the new MDX board to efficiently transition to meet the operating, capital and safety needs while proactively executing financial policies that maintain financial flexibility and preserve bondholders protections;
-- A material weakening of the infrastructure maintenance regime, leading to an actual or anticipated backlog of deferred maintenance and significant asset deterioration;
--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.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
-- Positive rating action is not contemplated given a high degree of uncertainty with regard to the board's future composition, policy direction, capital and financing plans, legal status and other factors in relation to HB 385.

CREDIT UPDATE

On May second and third the Florida State Senate and House passed HB 385, respectively, by healthy margins pending final action from Governor DeSantis. The bill dissolves MDX, sets up a successor agency named the Greater Miami Expressway Agency (GMX), sets substantial toll rate reductions as one of its goals, and caps toll rates for a decade subject to some exceptions. Fitch views the bill as materially negative for credit quality for the reasons stated below.

First, the bill enshrines an extreme example of state-wide political interference into the rate-setting policies of an independent tolling authority by dissolving MDX and barring all locally appointed board members from serving on a successor board while allowing for the retention of those appointed at the state level. Although the overall composition of local and statewide appointees will remain the same after removed members are replaced, the bill allows the governor to remove board members for a number of broadly defined reasons and dissolution sets a severe tone for GMX and other local agencies should state-wide policymakers frown upon the rate-setting policies as enacted by their boards and calls into question the underlying independence of their rate-making authority. To date, there has not been evidence of spill-over political influence on other Floridian toll authorities, though Fitch will continue to monitor the situation.

Second, the bill creates a rebate program, beginning on January 1, 2020, with the goal of rebating 25% of tolls to Sunpass holders residing in the county who incur $12.50 or more in tolls each month. Although the provision is subject to compliance with trust indenture requirements and a financial feasibility study, Fitch projects the rate reduction could occur within the legal framework of the authority's 1.2x rate covenant, yet would result in a significantly weakened financial profile.

Historically the authority has operated with DSCR near or above 2x since 2015. Fitch conservatively projects that the rebate program, if implemented as proposed, would cost the authority up to about $46 million, and would lower DSCR to 1.5x in 2020, the year of proposed implementation, under Fitch's base case cash flow projections. The actual revenue loss is likely to be somewhat lower as the bill carves out motorists who pay less than $12.50 per month in tolls as well as motorists who register their vehicles outside the county. Neither carve-out was incorporated into Fitch's projections due to a lack of data.

Third, the bill caps toll hikes for 10 years, thus usurping rate-setting authority from the successor board and impairing the authority's pricing framework. In the first five years, rates can be raised only if necessary to remain compliant with bond covenants. In the following five years, rates could be raised only with a supermajority approval of the board. Beyond the 10 year horizon, rate hikes would require a two-thirds majority of the board, as opposed to the more typical 50% approval threshold for other tolling agencies.

Fourth, rate reductions and caps will reduce the authority's capacity to fund its capital improvement program and raises questions over its ability and willingness to continue with its historically strong maintenance program. The bill states that the Kendall Parkway program would remain a top priority, yet it is unclear how it or the authority's other capital improvements will be funded. The authority previously had projected an additional $1 billion of debt issuances over the next five years and it is unlikely such a debt load could be supported without rate hikes from current levels. Thus, a degree of CIP deferral, reduction or cancellation may need to take place and it is unclear whether some maintenance would additionally need to be deferred. Lastly, the bill requires approval from the Legislative Budget Commission for any debt-funded capital projects, which diminishes the authority's capital planning autonomy and exposes it to legislative political interference.

The bill will need to be signed by the governor prior to taking effect on July 1 and MDX has pursued legal action to stop it by filing a verified complaint with a preliminary injunction hearing set for May 10. It is unclear to Fitch whether a legal stay will ultimately be imposed and whether MDX would have legal standing post-dissolution if it is not. The authority views the legislation as inconsistent with a transfer agreement in which MDX paid the state for the right to operate the expressway system and also with the state's home rule charter laws. Other local and independent government bodies have been dissolved by actions of their respective states in the past, such as over 400 Californian redevelopment agencies that were dissolved pursuant to legislation in 2011. The RDA dissolution was challenged in state courts, which ultimately ruled the state had the authority to dissolve them, though it is unclear whether the judicial rationale would apply to MDX.

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
Scott Monroe Director
+1-415-732-5618
Fitch Ratings, Inc.
One Post Street
San Francisco, CA 94104

Secondary Analyst
Meredith Feld-Tabouret
Director
+1-646-582-4563

Committee Chairperson
Chad Lewis
Senior Director
+1-212-908-0886

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

Additional information is available on www.fitchratings.com
Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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.

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.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.