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Fitch Rates Miami-Dade Expressway Auth, Florida's Revs 'A-'; Outlook to Positive Ratings

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Fitch Ratings-New York-01 July 2010: Fitch Ratings assigns an 'A-' rating to approximately $262 million Miami-Dade County Expressway Authority, FL (MDX) toll system revenue bonds, series 2010. In addition, Fitch affirms the underlying 'A-' rating on $925 million in outstanding MDX toll system revenue bonds. The Rating Outlook for the toll system revenue bonds has been revised to Positive from Stable. The series 2010 bonds are expected to be sold through negotiation during the week of Aug. 2, 2010 and will be used to fund a portion of MDX's fiscal 2011-2015 work program and pay the cost of issuance.

The Positive Outlook reflects MDX's encouraging financial performance over the past two fiscal years during weak economic conditions that have negatively impacted other toll facilities. The Outlook also reflects the potential for growing financial flexibility in the medium term even under Fitch's stress case assumptions. This growing flexibility is dependent upon management's ability to implement all electronic tolling (AET) system-wide, coupled with tolling previously un-tolled movements in a timely fashion. If successful, these changes should generate a significant increase in revenue, improving overall credit quality. Importantly, a key consideration to a positive rating movement will hinge on management's prudent oversight of operating and maintenance expense growth while and proactively maintaining service levels and road conditions of the system. Successful delivery of MDX's large scale capital program and demonstrated financial performance and less than expected diversions as a result of new toll segments will be key to positive rating momentum.

The 'A-' rating is based on the economic strength and diversity of MDX's system of tolled highways, limited competing facilities, a track record in recent years of increasing tolls to adequately meet the authority's needs, and MDX'x favorable financial performance. The rating also reflects MDX's cooperative relationship with the Florida Department of Transportation (FDOT) and Fitch views MDX's moderate-to-high level of economic rate-making flexibility as key to the rating. Total transactions declined only 1.8% in fiscal year (FY) 2009 (FY end June 30) and are expected to increase less than 1% for FY 2010, reflecting the strong demand for the system given the limited viable alternatives despite weak economic conditions. While operating and maintenance (O&M) expenses grew significantly in early part of the decade, various cost containment measures are expected to generate reductions of approximately 4.9% for FY 2010.

Key credit risks for MDX include management's ability to meet the pace by which the 2011-2015 capital plan is implemented to provide satisfactory levels of service for customers while maintaining financial flexibility and the uncertain economic conditions that could reduce near-term traffic. Additionally, a risk to the authority is its ability to delicately balance future capacity needs and improvements on the existing system with political pressures for the broader transportation needs of south Florida. Given the authority's financial plan is not contingent upon additional rate increases or additional borrowing, MDX retains economic rate raising flexibility. However, similar to the challenge faced by other toll authorities, the ability to deal with potential financial constraints through additional toll increases may be limited to the extent policymakers and residents perceive MDX as not adequately addressing traffic congestion.

MDX is currently embarking on a full AET conversion of its facilities. Portions of the system currently have all tolls collected electronically, and the remaining portions of the road are expected to have full implementation over the next two to three years. While MDX's AET strategy is expected to yield a number of benefits including generating additional revenues from currently untolled segments of the system, establishing a more equitable rate structure for all users of the system and reducing toll collection related congestion, the key risks associated with AET is community resistance to the new rate strategy, managing new technology and timely project implementation and the potential for a higher level of toll evasion and revenue recovery costs. Given MDX's experience on the existing segments which operate all electronically, Fitch expects the impacts of the aforementioned risks should be considerably less as the remaining segments are brought online.

IN FY 2008 MDX opened the 836 extension and revenues increased to $115.8 million from $82 million in FTY 2007 or 41%. Since FY 2008 toll revenues declined, albeit less than other facilities, with 2009 and preliminary 2010 revenue down by 2.3% and 5.7%, respectively, reflecting weakening economic conditions and some construction related traffic diversions. SR 924 and SR 874 had the greatest traffic declines at 9% and 6.1%, respectively, over the two year period from 2008-2010. In fiscal 2009, O&M expenses grew approximately 17% as MDX incurred additional costs related to tolling operations with new toll plazas and the traffic management center. FY 2010 estimated O&M expenses grew at 2.9% as the authority implemented various cost containment initiatives related to contracted services and administrative costs. While O&M expenses are expected to increase in 2011 at 8% due to continued staffing, toll operations and roadway needs associated with new ORT initiatives, Fitch expects MDX management will continue to carefully manage costs after the initial build-up.

Debt service coverage in 2008 and 2009 was robust at 1.9 times (x) and 1.7x, respectively, while 2010 is expected to be lower at 1.45x due to the aforementioned toll revenue declines coupled with expense and debt service growth. Annual debt service is forecasted to significantly escalate in 2012 by 24% then generally level off for the next 10 years. Under Fitch's stress assumptions, which include limited traffic growth, lower than anticipated increased toll revenues from new AET initiatives that MDX anticipates and no toll increases, debt coverage is expected to remain solid between 1.4x and 1.5x in the near-to-medium term. To the extent that the authority's assumptions regarding traffic and toll revenue growth meet expectations and costs are managed prudently, debt service coverage will be stronger and could fuel a positive rating change. While the existing system provides a solid foundation, financial margin is largely dependent upon generating revenues from the AET initiatives. Near-term revenue growth is projected to be generated by the new toll collection points on SR 878, SR 874 and SR 924. Although this is a risk to MDX's financial profile, revenues from the toll collection points are to be generated from an existing traffic base and reflect conservative traffic diversion assumptions once tolls are in place. Fitch does note that MDX does retain a moderate-to-high economic ratemaking ability should revenue estimates under the current rate structure not come to fruition.

MDX's 2011-2015 $494 million work program includes $394 million for 17 existing system improvement projects that are expected to improve overall service and ease some capacity constraints. Approximately $69 million will fund 30 facility improvement projects including non-routine maintenance and minor roadway projects as well as toll plaza and intelligent transportation system (ITS) projects throughout the system. The remaining $25 million is expected to be used for system expansion projects and $5 million will be for contingencies. While the authority expects limited additional debt to finance its work program, the possibility exists that further leveraging may be required over near-to-medium term if excess cash flow to fund a portion of the projects is insufficient and/or the authority faces additional transportation projects and needs.

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).

The application of the following criteria was used to derive the rating of the above referenced bonds:
--'Rating Criteria for Infrastructure and Project Finance', dated Sept. 29, 2009;
--'Global Toll Road Rating Guidelines', dated March 6, 2007.
Both are available on the Fitch Ratings website at 'www.fitchratings.com'.

Contact: Chad Lewis +1-212-908-0886 or Mike McDermott +1-212-908-0605, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at www.fitchratings.com.