



Rating Action: Moody's downgrades the Miami-Dade County Expressway Authority (FL) to A2 and places the ratings under review for further downgrade

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New York, May 10, 2019 -- Moody's Investors Service has downgraded the ratings of the Miami-Dade County Expressway Authority (MDX) to A2 from A1. Moody's has also placed the authority's ratings under review for downgrade. MDX has approximately \$1.4 billion of bonds outstanding.

RATINGS RATIONALE

The downgrade is driven by the persistent political interference into MDX operations, particularly where it influences the authority's ability and willingness to increase rates which then impacts financial margins. The ratings remain under review for further downgrade pending developments around House Bill 385. The Florida state legislature passed a bill which proposed the dissolution of the Miami-Dade Expressway Authority (MDX) in its current form and transference of all its assets to a new authority with materially reduced toll-setting ability and different governance. The bill stipulates the new authority shall review "contracts and "may" assume the liabilities of MDX. House Bill 385 passed the floor vote on April 17th, and was sent to the senate for review. HB 385 was put in front of the Senate, substituting for its own version of the bill (Senate Bill 898), and was passed on May 3rd. It will be put to the governor for review in 14 days, who has the right to veto but otherwise the bill becomes state law.

The new entity created by the bill, called the Greater Miami Expressway Agency (GMX), would have a dramatically reduced ability and willingness to increase rates as compared to MDX. Index tolling was to begin July 1, 2019, and that has been halted. GMX may not increase its toll rates until 2024, except as needed to comply with rate covenants. Further, this legislation shows the asset's ability to raise rates is limited, even if allowed under its rights. GMX would also introduce rebates up to 25% of tolls, further impacting tolling ability starting in January 2020. Eligible drivers need to spend \$12.50 monthly on tolls using SunPass in a vehicle registered in Miami-Dade County. The rebate percentage is subject to rate covenants and "consideration of impact" to the financial feasibility of prioritized projects that have been allocated funds for a project development and an environmental study but are not contained in the 5-year work program on July 1, 2019. The proposed governance structure puts three of the nine members of the board as state appointees plus the district secretary of Florida Department of Transportation. Rate increases require a supermajority vote, which means toll rates are effectively controlled by state-level appointees rather than those appointed by local jurisdictions. Under the new governance structure, all projects needing financing will need the approval of the Legislative Budget Commission.

There are substantial questions around the legality of several provisions in the law and MDX filed a lawsuit Sunday in Leon County circuit court on Sunday, May 5th to block the bill. These questions include the authority's belief that the legislation runs contrary to the transfer agreement between MDX and the Florida Department of Transportation (FDOT), which owned and operated the MDX roadways prior to the creation of the authority in 1994. Signed in 1996, FDOT transferred full jurisdictional control over the operations, maintenance and finances of the MDX roadways, including all rights to regulate, establish, collect and receive tolls under the agreement. In return, the authority made a payment to FDOT of \$91 million, which was funded through bond issuance. It's unclear that the state can take assets of a locally created authority who purchased them pursuant to a contract. Further, the transfer agreement itself is pledged under the bond indenture, and this bill would therefore raise risk to MDX bondholders. MDX believes the transfer agreement is irrevocable and in perpetuity. It is also unclear if the state has the authority to dissolve an entity created by the Miami-Dade Board of County Commissioners as an entity under home rule charter. Further points of contention include questions under contract law, and if the state has the ability to interfere in the rights of an expressway authority while bonds are outstanding.

RATING OUTLOOK

MDX's ratings are under review for possible downgrade based on the impact of the legislation, should it be signed into law and held up in the courts. This would materially change the profile of the credit which may result in additional downgrades including a multi-notch downgrade.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Implementation of HB 385 as passed by the Florida Legislation on May 3rd
- Significantly increased costs to implement remaining capital projects, or unanticipated increases in the scope or scale of current capital projects that would be debt-financed
- Lower than currently forecasted DSCRs, excluding use of reserves

- Appreciable reduction in currently strong liquidity levels

FACTORS THAT COULD LEAD TO AN UPGRADE

- Clear protections from outside interference though legal precedent that restores freedom of rate setting ability that allows revenues to grow
- Sustained period of traffic growth in conjunction with an implementation of indexed toll increases
- Sustained DSCRs of 2.0 times or higher
- Maintenance of current strong liquidity levels

LEGAL SECURITY

The senior bonds are secured by net revenues of the toll road system and have a rate covenant of 1.2 times DSCR with the use of reserves and 1.0 times without the use of Rate Stabilization Fund Reserve (RSFR) balances. The MDX board policy is to maintain minimum of 1.5 times coverage including the RSF. The bonds have a fully funded cash Debt Service Reserve Fund equal to MADs. The indenture also requires annual inspections of assets by an independent consulting engineer and the maintenance of a renewal and replacement fund. As of January 2018, the cash position of this fund was equal to \$145.8 million. This RRF is restricted by the authority for maintenance capital expenditures, but funds may be transferred out for other purposes, if needed.

USE OF PROCEEDS

Not applicable.

PROFILE

The MDX system is an essential, multi-asset system comprised of five urban expressways totaling 33.6 miles (222.9 lane miles) with a large commuter base in Miami-Dade County (G.O. rated Aa2/stable). The expressways connect the Miami International Airport (MIA, Miami-Dade (County of) FL Airport Enterprise rated A2/positive) with downtown Miami and Miami Beach, and provide direct links to the Florida Department of Transportation (FDOT, Senior Revenue Backed Aa2/stable), as well as I-95, I-75, and I-195. The system includes the Airport Expressway (SR 112), the Dolphin (East-West) Expressway (SR 836), the Don Shula (South Dade) Expressway (SR 874), the Snapper Creek Expressway (SR 878) and the Gratigny Parkway (SR 924). The authority's system of toll roads serves a primarily passenger car/commuter base in the Miami-Miami Beach-Kendall MSA and the mainline SR 836 provides direct East/ West connectivity to MIA.

The authority was formed in 1994 by Ordinance No. 94-215 enacted by the Miami-Dade Board of County Commissioners. Prior to the establishment of MDX, locally collected revenue was shared with counties state-wide. State legislation was passed in 1996 enabled the authority to take complete financial and operation control of the five expressways in perpetuity from FDOT.

Since 2008, all Florida toll authorities are subject to certain oversight by the Florida Transportation Commission (FTC) pursuant to Section 20.3(2)(b) 8, Florida Statutes, but the FTC has no control over toll rates. The composition of the authority's nine member board includes three members appointed by the governor, five members appointed by the county commission, plus the District Secretary of District Six of the Florida Department of Transportation as an ex-officio voting member.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Myra Shankin
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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