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Miami-Dade County Expressway Authority, FL

LT SR REV UNDERLYING	A1
Outlook	Stable

Source: Moody's Investors Service

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Miami-Dade County Expressway Authority, FL

Proposals to Change Miami-Dade Expressway Authority are Credit Negative but Face Significant Legal Obstacles

The Florida state legislature is currently debating two bills which propose to dissolve the Miami-Dade Expressway Authority (MDX, A1, stable) in its current form and transfer its assets and liabilities to a new authority with materially reduced toll-setting ability and different governance. Moody's considers the current political dispute affecting MDX operations as a negative pressure on the credit. Any changes that reduce the authority's ability to adjust rates to meet bond debt service, operating expenses, and other liabilities would be negative to the authority's credit profile. However, the current proposals face a number of political and legal obstacles before becoming effective.

House Bill 385 passed the floor vote on April 17th and is being sent to the senate for review, while Senate Bill 898 has moved out of committee and will be debated on the senate floor later this week. Some of the differences between the two bills include the size and structure of the governing board of the new authority, variations on tolling regimes, transfer terms between MDX and the new authority and the approval process for financings related to capital expenditures. To be enacted into law, a single version of these two bills must be agreed on by both chambers before the end of the 2019 legislative session on May 3rd and be put in front of the governor for his review.

Should the process advance to the point where (1) the senate passes SB 898 and the two legislative chambers come to agreement on a final bill, which passes floor votes before May 3rd, (2) the final bill looks reasonably similar to what is currently envisioned, and (3) the legality of the final legislation is upheld in the courts, it would have negative ramifications on several fundamental credit drivers, including the ability and willingness to increase rates and the entity's financial profile. This would significantly change the credit profile of the authority in a negative direction.

There will be significant political and legal obstacles to making the proposed changes

SB 385/HB 898 have a hard deadline of May 3rd to have a unified bill pass both the full house and senate before going to the governor for signature within 14 days. Should a bill be signed into law, MDX plans to move immediately to seek an injunction upon passage in order to provide for a judicial review of several legal issues it views as contrary to law.

These changes include the 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 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.

The current political dispute is credit negative for MDX as evidenced by these proposals. This began in 2014, when MDX completed its shift to electronic tolling across all its roadways and increased rates on SR-836 and SR-112. Prior to that, the locations of cash toll plazas allowed some motorists to strategically travel on segments without paying tolls. Combined with the elimination of free westbound traffic, there was a vocal adverse reaction to MDX's new tolling plan and several legislative proposals have been made in the years since.

Given the recent history of proposed legislation against MDX, we expect similar bills will be introduced in legislative sessions in the coming years if a bill is not passed this May. It's probable that this issue will not be definitively settled one way or another without intervention of the courts.

Changes to rate setting abilities would carry the greatest risk to credit

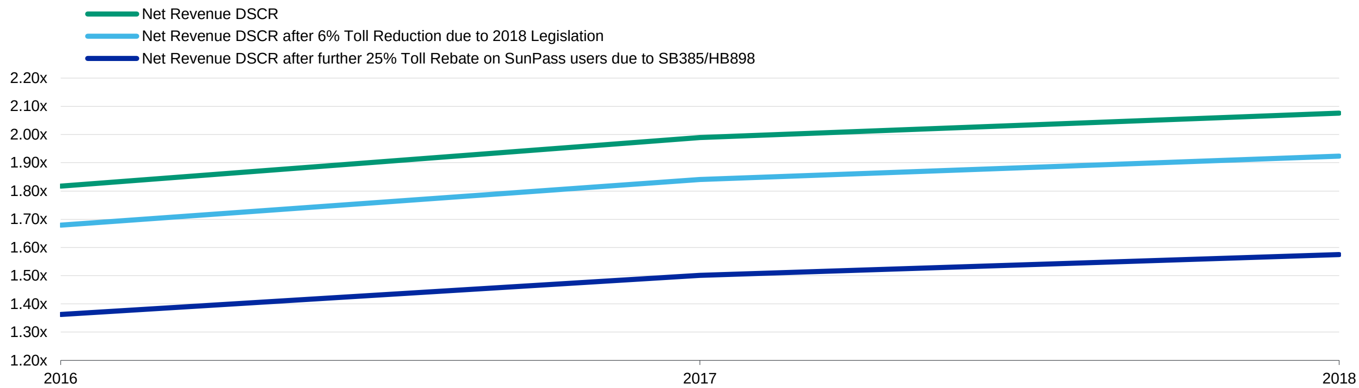
The greatest credit risk, if any change of control occurs, would be the impact to the authority's ability to raise tolls. Any restrictions on the facility's ability to raise revenue to meet the authority's commitments would have a negative credit impact and could result in a rating downgrade, potentially greater than one notch.

Longer term revenue would be hampered by the proposal in both HB 385 and SB 898 to reduce current rates by 25% for SunPass users, which make-up approximately 84% of system users. This in addition to the impact of a 2018 law which mandated a 5-10% reduction in all toll rates or the MDX governing board would be removed, resulting in an estimated 6% decline in FY 2019. The result is net revenue debt service coverage declines of approximately 45 to 55 basis points. This is the impact such a measure would have had when looking at FY2016-2018, as shown in Exhibit 1.

Additionally, neither bill allows for a potential toll increase to fund capital needs through 2029, which would limit the ability of the system to expand to meet additional needs and it would increase pressure on authority financial margins as needs grow.

Exhibit 1

MDX Net Revenue Debt Service Coverage Ratios Before and After a 25% Reduction in SunPass Toll Revenues
FY 2016-2018



Source: Moody's Investors Service

Background

In January, HB 385 and SB 898 were filed in the state house and senate, respectively. The bills are not identical but both roughly involve dissolving MDX in favor of a new authority, to be called the Greater Miami Expressway Agency, which would govern the five MDX roadways. SunPass users would be given a 25% rebate of tolls. Indexed toll rate increases, allowing toll rates to increase automatically according to the Consumer Price Index change, would be eliminated, rate increases would be suspended for ten years through 2029, and increases beyond 2029 would require a two-thirds majority vote of the board. Any other toll rate increases would only be permissible as required under the rate covenants in the bond indentures.

The house bill has passed the floor vote and has been sent to the senate, whose own bill is out of committee and is expected to discussed on the floor later on this week, in advance of a full floor vote. That said, the house and senate bills are currently not identical, and different concessions have been made with legislators in each chamber. By sending the passed HB 385 to the senate, the house is giving the senate the ability to (1) accept the house bill as it currently reads, (2) amend SB 898 so it reads the same as HB 385 or (3) pass SB 898 independently and non-identically to HB 385, which would send the senate bill to the house to restart this process. To move forward, the house and senate bills must be completely aligned and pass floor votes in both legislative chambers. This all must occur before May 3rd. At that point the bill moves to the governor, who has the right to veto but otherwise the bill becomes state law.

MDX occupies a strong market position, but will continue to face political pressure regardless of the outcome

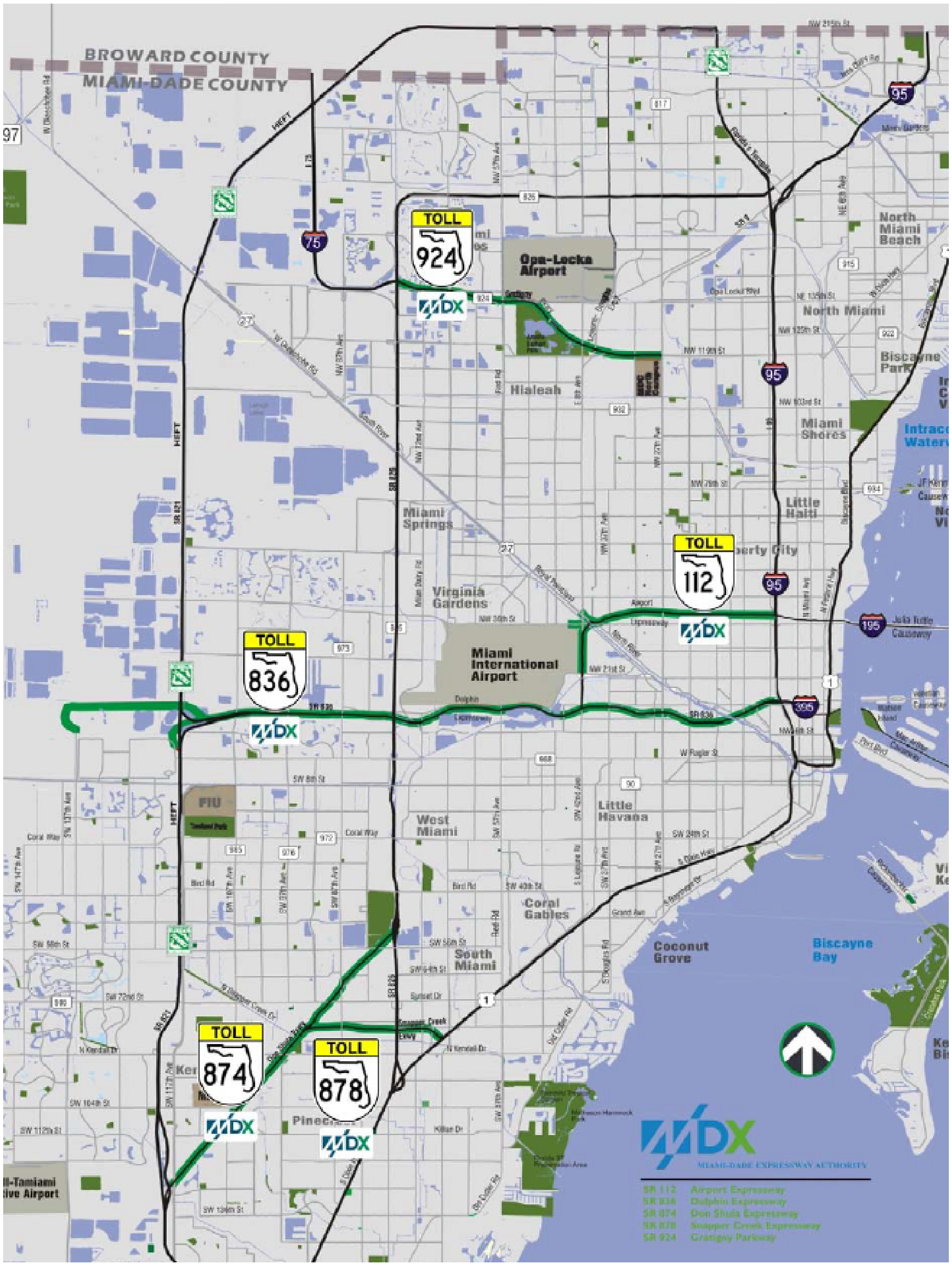
The MDX system is an essential, multi-asset system comprised of five urban expressways totaling 33.6 miles (222.9 lane miles) with a large commuter base in Miami-Dade County (G.O. rated Aa2/stable). The expressways connect the Miami International Airport (MIA, Miami-Dade (County of) FL Airport Enterprise rated A2/stable) with downtown Miami and Miami Beach, and provide direct links to the Florida Turnpike (FDOT revenue bonds rated 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. Execution of the transfer agreement in 1996 enabled the authority to take complete financial and operational 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.

Exhibit 2

MDX Expressway Map



Source: Miami-Dade Expressway Authority

Moody's related publications

Credit Opinion: Miami-Dade County Expressway Authority, FL: Update following upgrade of senior bonds to A1 (February 2018)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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