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Fitch: Florida Underscores State Commitment to Toll Projects.

Fitch Ratings-New York-19 March 2018: A bill which would have authorized the Florida Department of Transportation (FDOT) to acquire Garcon Point Bridge (the bridge) did not pass the Florida senate, says Fitch Ratings. The bill would have provided the FDOT with the authorization to purchase the bridge, repay itself for operations and maintenance (O&M) and capital costs previously expended and to purchase the authority's $135 million in defaulted bonds at a discounted price. Such proposed reimbursement of O&M and capital costs would have been inconsistent with the terms of the original transaction. The lease purchase agreement (LPA) between FDOT and the authority along with the bond resolution had structurally subordinated reimbursements of these costs to payments to senior bondholders, prior to and following any payment default.

The legislature's failure to advance the proposed bill indicates continued institutional support for the arrangement, which is a material rating factor for projects which have LPAs with FDOT (including Mid-Bay Bridge Authority and Florida Turnpike Enterprise, described in detail below).

The authority's revenue bonds, series 1996 (the bonds) are supported by a gross pledge of system toll revenues, entitling bondholders to be paid full principal and interest prior to satisfaction of any other claims on revenues. Pursuant to the LPA with the authority, FDOT is obligated to and has paid bridge O&M and major maintenance costs since inception. To date, FDOT has always stood by its commitment to fund O&M and capital costs, and such support along with the toll facilities' revolving trust fund loans have served as a significant credit enhancement for debt issued by a number of tolling authorities in the state.

While the LPA calls for annual reimbursement of such costs on a subordinated basis to senior debt service, in the case of the Santa Rosa Bay Bridge Authority toll revenues have been insufficient to pay debt service on the bonds, resulting in payment defaults since July 2011. Consequently, there also have been no funds available to reimburse FDOT for O&M expenses paid. The authority's liability to FDOT has accumulated to approximately $25 million since opening in 1999 for operating and maintaining the bridge. The authority also owes the state nearly $8 million from non-interes--bearing subordinate toll facility revolving trust fund loans for initial bridge design costs. The proposed legislation would have authorized the state to deduct from the discounted purchase price the sum of all subordinate loans ($33 million) effectively making the state obligations senior to bondholders. The net payment to bondholders would have been 50% of $102 million, or $51 million. The bill was inconsistent with the feasibility report produced by FDOT and Division of Bond Finance suggesting a solution for the defaulted bonds through the issuance of Florida turnpike revenue bonds to acquire the bridge at a negotiated price.

A point to note is that while the proposed legislation sought to provide authority to FDOT, it would have been up to bondholders to agree to the terms put forward. It is Fitch's view that law strictly limits the ability of a state to amend the legal structure and related contracts legislatively and extinguish bondholder claims without consent of each bondholder. If the bill is reintroduced, ultimately, Fitch expects the purchase price would have to be agreed upon through a negotiation with the bondholders. A non-consensual outcome would raise substantial questions about bondholder rights more generally and would need to be considered even in the context of performing transactions.

Practically, this would be most relevant to Fitch-rated projects with similar lease purchase agreements such as the Mid-Bay Bridge Authority (senior/junior liens rated BBB+/BBB/Stable). The current ratings of other facilities with a gross revenue pledge, like Florida Turnpike Enterprise (rated AA/Stable), which is a division of FDOT and a large and mature enterprise with considerable positive cash flow available for reinvestment, are less driven by the state support. However, in a crisis that support will remain a material credit factor boosting credit quality.

FDOT's commitment over many decades has helped toll agencies achieve and maintain investment-grade ratings, as the gross revenue pledge provides for an additional level or protection particularly during early operating periods, economic downturns and heavy investment cycles.

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