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Osceola County, Florida; Toll Roads Bridges

Primary Credit Analyst:
Scott Shad, Centennial (1) 303-721-4941; scott.shad@spglobal.com

Secondary Contact:
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph.pezzimenti@spglobal.com

Table Of Contents

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Credit Profile		
US$198.21 mil transp imp & rfdg rev bnds (Osceola Pkwy) ser 2019A-1 due 10/01/2054		
Long Term Rating	BBB+/Stable	New
US$107.911 mil transp imp & rfdg rev cap apprec bnds (Osceola Pkwy) ser 2019A-2 due 10/01/2054		
Long Term Rating	BBB+/Stable	New

Rationale

S&P Global Ratings assigned its 'BBB+' long-term rating to Osceola County, Fla.'s estimated $312 million series 2019A transportation improvement and refunding revenue bonds issued for the Osceola Parkway (parkway). The outlook is stable.

We assess the parkway using our "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises" (TIE) criteria.

The rating reflects our opinion of the parkway's strong enterprise risk profile and adequate financial risk profile. The enterprise risk profile reflects the parkway's linkage in the large and growing Orlando-Kissimmee-Sanford metropolitan statistical area (MSA) road network, particularly to and from Disney World, providing convenience and time savings for drivers compared with alternative toll-free routes. This strength is tempered by the parkway's single-asset nature with limited tolling points. Our financial profile assessment reflects the narrow revenue profile and expectation that the parkway's debt service coverage (S&P Global Ratings calculated) and debt capacity will be maintained at levels we consider adequate because of planned toll rate increases, and no additional debt plans, supported by relatively stable and growing traffic levels along with adequate liquidity.

The enterprise risk profile reflects our view of the parkway's:

- Adequate market position, reflecting the parkway's relatively small size, limited tolling points with a majority of revenues dependent on the Shingle Creek Mainline Plaza, and exhibiting generally good demand trends due to providing good time savings for commuters compared with alternative routes, which are frequently congested;
- Extremely strong service area economic fundamentals, which reflects the Orlando-Kissimmee-Sanford MSA's generally favorable levels of economic activity as measured by GDP per capita, relatively large population, relatively low unemployment rates, and above-average expected population growth;
- Low industry risk relative to that of other industries and sectors; and
- Strong management and governance, reflective of financial practices and expertise that we believe adequately mitigate the parkway's operational and financial risks.

The financial risk profile reflects our view of the parkway's:

- Adequate financial performance, reflecting our expectation that debt service coverage (DSC; S&P Global Ratings-calculated) will be maintained at levels we consider strong (above 1.25x) due to planned toll rate increases

and generally good demand from serving an expanding service area population offset by higher debt service requirements from the proposed series 2019A bonds, potential fluctuations in traffic levels, and the parkway's limited toll points and geographic reach;

- Vulnerable debt and liabilities capacity, reflecting the effects of the proposed series 2019A bonds that will increase the parkway's debt-to-EBIDA to over 20x for the next few years that we expect will gradually improve as a result of no additional debt plans, annual toll rate increases, and generally good traffic trends; and
- Adequate liquidity and financial flexibility, reflecting our expectation that management will maintain unrestricted cash and investments in excess of 250 days' cash on hand and less than 1% of debt outstanding in the near term.

Bond proceeds will refund the county's series 2014 transportation improvement refunding revenue bonds outstanding, prepay the Reedy Creek improvement district obligations outstanding, and fund various capital improvement projects consisting of nexus projects that will enhance connectivity for commuters with the parkway. In addition, bond proceeds will fund a debt service reserve and pay costs of issuance.

Net revenues of the parkway secure the bonds. Following the issuance of the series 2019A revenue bonds, there will be approximately $312 million of debt outstanding consisting solely of the series 2019A bonds. The parkway has no variable-rate debt, swaps, or direct-purchase debt outstanding.

The Osceola Parkway is a 17.3-mile toll facility, located in Osceola County. The parkway is mature and fully built-out with operations and toll collections since Sept. 5, 1995. Only the western 4.7 miles of the parkway are tolled. The parkway is mostly a commuter road, with passenger traffic accounting for about 99% of total traffic. Approximately 64% of toll transactions in fiscal 2018 were collected electronically from motorists using SunPass or E-PASS.

We consider the bond provisions credit neutral. Bond provisions include an additional bonds test requiring that forecast net revenues produce maximum annual debt service (MADS) coverage of at least 1.5x, along with a rate covenant requiring the county to adjust tolls to meet at least 1.3x DSC on all outstanding obligations. A debt service reserve, funded to the lesser of maximum annual debt service (MADS) or 125% average annual debt service, provides additional liquidity.

Outlook

The stable outlook reflects our expectation that parkway traffic trends will be generally good with some periods of fluctuation and DSC (S&P Global Ratings-calculated) will be maintained above 1.25x in spite of escalating debt service due to planned annual toll rate increases.

Upside scenario

We do not expect to raise the rating in the near term, given the parkway's weak debt capacity following this issuance, and its limited tolling points.

Downside scenario

Although unlikely, we could lower the rating if traffic levels significantly decline or DSC materially erodes.

Enterprise Risk

Our enterprise risk profile assessment considers the parkway's service area economic fundamentals, industry risk, market position, and management and governance.

Economic fundamentals

Our assessment of the parkway's service area economic fundamentals reflects the Orlando-Kissimmee-Sanford MSA's generally favorable level of economic activity as measured by estimated GDP per capita of $55,174, large and growing population (estimated at 2.6 million), above-average expected population growth of 6.1%, and relatively low unemployment rates. The estimated unemployment rate was 3.3% in 2018, and is below the estimated national unemployment rate of 3.9%.

Osceola County covers about 1,500 square miles in east-central Florida, about 18 miles south of Orlando. Kissimmee is the county seat. The majority of the county's population lives in or near the two incorporated municipalities of Kissimmee and St. Cloud. Southern Osceola County is largely rural.

The area economy benefits from the presence of Disney World and other resorts, which bring a steady influx of tourism and demand within the parkway's corridor. The economy focuses on tourism and other service-related industries, which account for about 50% of employment.

Market position

Our assessment of the parkway's market position considered its relatively small size; limited tolling points with a majority of revenues dependent on the Shingle Creek Mainline Plaza; and generally good traffic trends from providing good time savings to commuters compared with alternative routes, which are frequently congested.

The Osceola Parkway is a 17.3-mile toll facility, running east-to-west on the northern edge of Osceola County, from Simpson Road to west of I-4, providing access to Walt Disney World, located west of the parkway. The parkway is mature and fully built-out with operations and toll collections since September 5, 1995, and benefits from its location in a congested corridor with limited alternative routes, providing a linkage in the road network connecting the communities to the resorts and theme parks in the Orlando area. Only the western 4.7 miles of the parkway are tolled, and the tolled portion encompasses the stretch of highway between John Young Parkway and I-4. The parkway is a four-lane facility, and mostly a commuter road, with passenger traffic accounting for about 99% of total traffic. The bond-funded nexus road improvements are intended to enhance connectivity with the parkway, particularly given ongoing residential development in the area.

The parkway has only two tolling points--the Shingle Creek Mainline plaza and Poinciana Ramp plaza--with a heavy reliance on one of them. In fiscal 2019, there were 10.2 million toll transactions, with approximately 85% from Shingle Creek and 15% from Poinciana.

Traffic growth is supported by the expanding and growing Orlando-Kissimmee-Sanford MSA. Historically, traffic trends have been generally good with some fluctuations, especially during recessionary periods. As a result of experiencing modest annual traffic growth since 2010, parkway traffic levels rebounded to pre-recession levels by fiscal 2014. Toll transactions increased to 10.6 million from 7.7 million from fiscals 2014-2018 at a compound annual

growth rate (CAGR) of 6.4%. However, transactions declined 3.4% to 10.2 million in fiscal 2019 due a suspension of tolls for six days due to Hurricane Dorian, adversely affecting toll transactions, and also back-office problems coupled with equipment issues. In order to mitigate unpaid toll transactions, which moderately escalated from fiscal years 2017-2019 due to aging equipment, the county is in the process of upgrading its electronic systems, and will also transition to all electronic tolling, which is expected to be completed in February 2022.

Revenue growth closely mirrored transaction growth from fiscal years 2014-2018, increasing to $17.1 million in fiscal 2018 from $12.2 million in fiscal 2014 at a CAGR of 6.9%, but declined to $14.7 million due to lower toll transactions. The traffic and revenue forecast prepared in connection with the proposed bonds expects toll transactions will increase at a CAGR of 2.8% from 2019-2023 to 11.3 million from 10.2 million, which we consider reasonable given the historical transaction growth of 5.2% since fiscal 2010; support from the expanding service area population of the Orlando-Kissimmee-Sanford MSA; and significant tourism activity.

We view the rate-setting flexibility as adequate. The parkway adopted a board resolution in November 2019 with planned annual toll rate increases indexed to the consumer price index, but no less than 1.5%, beginning Jan. 1, 2021. Currently, toll rates are $1.00 for all vehicles at the Poinciana Ramp plaza and $2.00 for two-axle vehicles, escalating by another $2.00 per additional axle at the Shingle Creek plaza. The toll plazas accept payment via electronic collection (E#?PASS or SunPass) or cash with an anticipated transition to all-electronic tolling in fiscal 2023.

Management and governance

We consider management and governance as strong, reflecting our view of the county's strategic positioning; risk management and financial management; and organizational effectiveness. We also consider the governance structure credit neutral.

We believe management's financial practices and expertise adequately mitigate the parkway's operational and financial risks. The county has established a track record of successfully operating its major lines of business, and maintains the parkway in a state of good repair with regular inspections for repairs and maintenance. An outside consultant updates an engineer's report every three years. In addition, the county performs capital planning through a five-year capital improvement plan that identifies project funding sources and is updated annually as part of the budget process. The county has a formal board-adopted debt management policy that follows state guidelines. The parkway has only fixed-rate debt outstanding with no swaps, direct-purchase debt, or unhedged variable-rate debt.

The county maintains a formal debt service coverage policy of 1.5x, as per the indenture, and a formal liquidity policy to maintain unrestricted operating reserves of at least two months of operating expenses plus transfers, which it has historically met or exceeded. Furthermore, management maintains adequate insurance policies including cyber liability insurance. We view management as experienced and effective in overseeing the parkway's finances, operations, and maintenance.

Financial Risk

Our assessment of the parkway's financial risk profile considers its financial performance, debt and liabilities capacity, and liquidity and financial flexibility. Our financial risk profile assessment considers the parkway's historical

performance and pro forma figures that reflect the effects of the series 2019A bonds with no additional debt needs, and plans to maintain liquidity near historical levels.

We base our financial performance, debt-to-net revenues, and liquidity and financial flexibility on a financial forecast that assumes toll rate increases tied to CPI beginning in January 2021, but no less than 1.5%, with toll transaction CAGR of 2.8% from 2019-2023, which we consider reasonable since it is lower than historical levels of 5.2% since fiscal 2010. We also evaluated metrics under lower traffic scenarios to assess how likely the parkway will be able to maintain DSC above 1.25x. Our pro forma analysis considers fiscal 2021 figures--the first full year of debt amortization. Net revenues for our financial performance and debt and liabilities capacity assessments include operating revenues (net of the statutory reserve requirement) plus interest income, less operating expenses and operations and maintenance (O&M)-like transfers out for expenses related to general administrative support. Our financial profile assessment also considers the parkway's financial policies, which we generally view as credit neutral.

Financial performance

We assess the parkway's financial performance as adequate, reflecting our expectation that the parkway will maintain DSC (S&P Global Ratings-calculated) at or above 1.5x, a level we consider strong, incorporating the effects of the proposed series 2019A bonds with no additional debt needs. Tempering this is the parkway's size and limited tolling points with approximately 85% of revenues reliant on the Shingle Creek plaza based on fiscal 2019 unaudited results. In addition, there is risk associated with rising debt service requirements, which we view as manageable due to planned toll rate increases tied to CPI beginning in January 2021 coupled with our expectation of generally good traffic levels. These factors, in our opinion, will largely offset escalating debt service requirements, providing DSC, per our calculations, of about 1.5x in fiscal 2021, the first full year of debt service for the proposed bonds.

Debt and liabilities

The assessment of the parkway's debt and liabilities capacity reflects our expectation that debt-to-EBIDA will exceed 20x in the near term as a result of the series 2019A. Following the issuance, the parkway will have approximately $312 million of debt outstanding, consisting solely of the series 2019A bonds. Debt service requirements will escalate annually from approximately $9.9 million in fiscal 2021 (first full payment) to $29.1 million in fiscal 2046, then remain level until the final maturity in 2054. Over time, however, we are expecting the parkway's debt-to-EBIDA to improve due to no additional debt plans and planned annual toll rate increases.

We consider the parkway's five-year capital improvement plan small and manageable given only $5 million in needs for a project relating to the conversion to pay by plate.

Liquidity and financial flexibility

We assess the parkway's liquidity and financial flexibility as adequate, based on our expectation that management will maintain unrestricted reserves in excess of 250 days' cash on hand and about 0.7% of debt outstanding in the near term. Unrestricted reserves totaled $2.1 million based on 2019 unaudited results, or 274 days' cash on hand, and 5.4% of total debt. However, we expect liquidity-to-debt to decline to about 0.7% following issuance of the series 2019A bonds. We expect management will maintain relatively steady unrestricted reserves as a result of no plans to materially draw them down in the near term. We note days' cash on hand could improve following the parkway's transition to all-electronic tolling in fiscal 2023, given a significant anticipated step down in annual O&M expenses.