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Fitch Affirms Florida Department of Transportation's TIFIA Loan at 'BBB'

NEW YORK--(BUSINESS WIRE)--Fitch Ratings affirms the rating on the Florida Department of Transportation's (FDOT or the department) Transportation Infrastructure Finance and Innovation Act (TIFIA) loan of up to $170 million for the Miami Intermodal Center (MIC) Rental Car Facility (RCF) at 'BBB'. The Rating Outlook is Stable.

Fitch's 'BBB' rating and Stable Outlook reflect the economic strength of the rental car market at Miami International Airport (MIA) that supports the generation of customer facility charge (CFC) revenues and, if required, contingent rent that secure the TIFIA loan; as well as an innovative financing structure and legal provisions that largely insulate the loan from the near term effects of significantly higher than expected construction costs and uncertain project opening. Additional credit strengths include a flexible loan repayment structure that focuses on ultimate recovery and allows for the timely payment of all obligations even if multiple downside events were to occur; the RCF's role as a critical element to the overall MIC program for improved MIA access and circulation; and FDOT's strong support and involvement in project development, implementation and financing.

FDOT received two bids in September to construct the RCF that were considerably higher than the department's estimate. While FDOT projected that the RCF's cost could be higher than the $190 million estimate at the time the TIFIA loan closed, the lowest cost bid of $350 million far exceeded the department's more recent estimates. FDOT attributes the higher than expected bids to significant demand for construction materials and services in the South Florida region. At this point, FDOT has rejected the bids it received and is considering other options that include negotiating with the low bidder under a separate contracting mechanism or rebidding the project. In addition, delays in the development of the people mover connecting the RCF with MIA create further uncertainty and could increase the project's exposure to a longer period of higher cost shuttle bus operations.

While higher than expected RCF construction costs and the potential for a delayed opening elevate the project's risk profile, structural limitations on loan draws provide significant lender protection. FDOT has not drawn on the loan and has no plans to do so in the foreseeable future. In addition the department is currently limited to draw no more than actual eligible RCF expenditures at the time of closing, or $28.1 million--levels of debt that are relatively easily supported by the current flow of revenues. A $95 million FDOT loan for land acquisition is subordinate to the TIFIA loan and does not have a final maturity date.

Additional TIFIA loan draws are allowed once the concession agreement with the participating rental car companies (PRCC) has been modified so that it conforms to the loan documents' rate covenant provisions. Fitch expects these modifications will be made given the strong partnership among FDOT, the PRCCs' and Miami-Dade County, which owns and operates MIA, and the PRCCs' strong incentive to support the project since the RCF's opening would allow them to shed their bus operation costs and much of their facility expenses. However, the timing for these modifications are uncertain until issues regarding potential changes to the scope, timing, financing and space allocation among the PRCCs are resolved and incorporated into an amended concession agreement. As a result, TIFIA is sufficiently protected given the $28.1 million maximum loan draw limit is expected to remain in place until the outstanding project issues are resolved. In addition, borrowing above the $170 million loan limit would require negotiation of new loan terms.

On-going collection of CFC revenues, which are not dependent upon the RCF's construction, provide an important protection to the TIFIA loan. CFC revenues have come in at about 85% of base case estimates. As of Sept 30, the balance of CFC revenues equaled $42.1 million, which exceeds the $28.1 million maximum loan draw and is greater than the $35.9 million in RCF expenditures to date that FDOT has paid so far with other MIC related funds. Nevertheless, a protracted RCF delay may pose a risk to CFC collections given the potential for PRCC resistance to the collection of a fee with increasing uncertainty surrounding the RCF's scope and timing.

The TIFIA loan, which closed on April 29, 2005, is administered by FDOT as borrower, while the United States Department of Transportation (USDOT) is the lender. The loan is secured by CFCs levied by Miami-Dade County on rental car transactions originating at MIA, and, if needed, contingent rent that would be levied by the County on the PRCCs. TIFIA loan repayments are not tied to a fixed amortization schedule, but are based on a requirement to make payments based on a percentage of funds available so long as required internal liquidity levels are maintained. As a result, the flexible loan principal repayment structure and 35 year maturity minimize default risk. A forward looking rate covenant provides an important tool to assess the RCF's financial condition and to determine whether CFCs need to be increased and/or contingent rent levied in advance to mitigate expected financial constraints.

The MIC is a $1.3 billion project to develop a major intermodal transportation hub over the next five years that will improve transportation links and reduce traffic congestion in the vicinity of MIA. The project is being developed by FDOT in partnership with Miami-Dade County, the USDOT, the Miami-Dade County Expressway Authority and the South Florida Regional Transportation Authority. The RCF, which is a separately financed MIC project element, will consist of a four level facility located at MIA with 6,500 parking spaces, 84 fuel positions and 30 wash bays. It will substantially replace much of the existing ready/return spaces, quick turnaround areas, and other customer service facilities of each of the PRCCs.