

**New Issue: MOODY'S ASSIGNS A3 RATING TO MIAMI-DADE EXPRESSWAY \$262 MILLION TOLL SYSTEM REVENUE BONDS, SERIES 2010; OUTLOOK STABLE**

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Global Credit Research - 02 Jul 2010

**AFFECTS \$921 MILLION BONDS OUTSTANDING**

Toll Roads  
FL

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Toll System Revenue Bonds, Series 2010	A3
<b>Sale Amount</b>	\$262,000,000
<b>Expected Sale Date</b>	06/17/10
<b>Rating Description</b>	Revenue

**Moody's Outlook Stable**

**Opinion**

NEW YORK, Jul 2, 2010 -- Moody's Investors Service has assigned an A3 underlying rating to the Miami-Dade County Expressway Authority's (MDX) \$262 million of Toll System Revenue Bonds, Series 2010. The outlook is stable. The rating and outlook are based on steady traffic and revenue growth; strong financial management; consistent debt service coverage ratios and financial margins through a period of heavy capital investment. The rating also considers risks associated with implementation/conversion of its expressways to all electronic tolling known as Open Road Tolling (ORT) and the need to realize revenue growth in the initial forecast period to support debt service. Additionally, the rating considers the potential for additional capital needs beyond the current capital program, though system assets are currently in satisfactory condition and no additional projects have yet been approved.

**USE OF PROCEEDS:** The Series 2010 fixed rate bonds funds various projects that are included in MDX's FY 2011-15 \$494 million five-year capital program. These projects will transition the system to a closed system with all electronic tolling (ORT) in the next five years and add capacity improvements.

**LEGAL SECURITY:** Net revenues of toll system and a debt service reserve fund equal to maximum annual debt service bonds. The indenture also requires the maintenance of a renewal and replacement fund that is currently equal to \$5 million with an additional deposit to occur in FY 2011 of approximately \$13.4 million.

**INTEREST RATE DERIVATIVES:** MDX has a total of four swaps associated on with the Series 2004A and Series 2005 variable rate bonds for a total notional amount of \$294.6 million. The variable floating-to- fixed rate swap on the Series 2004 bonds is with Citigroup Financial Products. MDX pays a fixed rate of 5.35% plus 105 basis points and receives 100% of SIFMA. An additional three variable floating-to- fixed rate swaps on the Series 2005 bonds are with JP Morgan Chase (rated Aa3), Citigroup (rated A3) and UBS AG (rated Aa3) as counterparties. For all three swaps, the authority pays a fixed rate of 4.31% plus 105 basis points and receives 100% of SIFMA.

Bond Series 2004 and 2005 bonds were converted to index floaters from auction rate in 2008 and were purchased through a long-term agreement by Dexia Credit Locale (rated A1). Dexia holds the bonds through maturity. Under the purchase agreement with Dexia, MDX has agreed to pay interest based on the 1-month LIBOR index plus 45 basis points for the first year, thereafter 1-month LIBOR plus 105 basis points in subsequent years, which it is currently paying. This agreement has removed the remarketing and put risk. At Dexia's discretion, it may allow MDX to convert its base interest rate to the SFIMA index, but interest payments to Dexia currently remain LIBOR-based.

**STRENGTHS**

\*Well-established primarily commuter toll-road system provides vital transportation links in a modestly growing service area

\*Inelastic demand expected with the implementation/conversion to ORT

\*Despite economic downturn well-diversified economic base continues to expand, driving traffic growth and population which is forecasted to grow 1.2% per year

\*History of consistently stable financial operations with sound financial results, and currently strong liquidity though declining debt service coverage

\*Multiple assets provide revenue diversification and stability

**CHALLENGES**

\*Forecast based on high growth in toll transactions related directly from the conversion of all electronic tolling and revenue as ORT is implemented.

\*Large capital improvement program has added significant amount of debt which relies on strong revenue growth for support

\*Conversion to all electronic tolling poses some implementation risks, which are somewhat mitigated by the phased-in approach, strong management and contractual performance targets/controls

#### MARKET POSITION/COMPETITIVE STRATEGY: MATURE MULTI-ASSET SYSTEM CONVERTING TO OPEN ROAD TOLLING

MDX operates five urban expressways in Miami-Dade County (G.O. rated Aa2) including 33.6 tolled lane miles. The five expressways provide for East-West mobility within Miami-Dade County and includes connection of the Miami International Airport (rated A2) with downtown Miami (G.O. rated A2) western suburbs and also provides direct links to the Florida Turnpike, (rated Aa3), as well as I-95, I-75, I-395, I-195 and SR 826. MDX is currently an open system, meaning that not all lane miles are tolled; however, the current capital program aims to make it an entirely closed system by 2014, where all traffic movements will be tolled. The roadways have benefited from steady population and housing growth in South Florida, which has contributed to increases in traffic and revenues.

Recent traffic and revenue trends have been relatively stable despite the economic recession, with traffic declining only 1.8% in FY 2009 and revenue down 3.3%. Year-to-date through April 2010 traffic is down 0.3% while revenue is down 1.4% compared to FY 2009.

MDX implemented four toll rate increases between 2000 and 2005, with little negative impact on traffic, which reflects relatively inelastic demand for MDX's roads. Average annual transaction growth in non-toll increase years was 2.8%. In FY 2008, MDX inaugurated tolling on a previously untolled section of SR 836, which resulted in a nearly 63% increase in transactions and a 38% increase in toll revenues. MDX's board made a commitment to open road tolling (ORT) in 2006 by adopting an ORT master plan to capture more revenue from its roadways and make tolling more equitable. In 2008, the board adopted a new tolling policy and plan to convert every roadway to ORT, while maintaining existing relatively low per mile rates.

#### FINANCIAL POSITION AND PERFORMANCE: DEBT SERVICE COVERAGE DEPENDS ON SUCCESS OF IMPLEMENTATION OF ORT

The partial implementation of ORT is forecast to produce a large, nearly 18% increase in revenue in FY 2011 and a 7% increase in FY 2012 following the addition of (conversion to ORT) several new tolling points on MDX's SR 924, 874 and 878 expressways. After FY 2012, revenue growth is forecast to resume historic annual growth rates of approximately 2.7%. The large increases in 2011 and 2012 are necessary for MDX to achieve forecasted net revenue senior bond debt service coverage (DSCR) of at least 1.4x on a rising debt service schedule. Full implementation of ORT is not expected until FY2014-2015 which will include the final two expressways SR 836 and SR 112. It should be noted the additional ORT revenue from SR 836 and SR 112 expressways are not currently included in senior DSCR due to Trust Indenture restrictions.

MDX's debt service coverage ratio is restricted by its indenture to only recognize revenue for projects to be completed within an 18 month period from the time debt is issued. The full implementation of system-wide ORT by 2014 is forecast to produce an additional large and uncertain increase in revenues of nearly 27% in FY 2015. While we expect that ORT will likely have a significant positive impact on revenues by allowing MDX to charge every car that uses the system, the degree of the revenue impact remains highly uncertain given the open nature of the current system which renders user behavioral data inconclusive as approximately 55% of users currently do not pay tolls. Until ORT is implemented and fully operational we believe that there is a risk of some traffic diversion to free, albeit not free-flowing, adjacent alternatives and the amount of additional revenue capture from the non-paying users remains to be seen. Currently, only approximately 45% of the system users pay tolls and the service area median resident income levels are below state and national averages.

The updated traffic forecast on which MDX is basing its current debt service coverage forecasts is relatively conservative in that it does not consider any toll increases through 2035, but does assume revenue capture from currently non-paying users. MDX's average one-way toll of 14.9 cents per mile (goes to 14.1 cents per mile with full ORT) remains below average for urban systems in the U.S. and could likely be increased without triggering significant traffic diversion. Electronic tolling accounts for approximately 77% of transactions in FY 2010, and this is forecasted to increase to 85% by 2015.

MDX has maintained sound financial operations and year-end results as it has financed and implemented a sizable and complex capital improvement plan. Revenues increased by 40% in FY 2008 due to the opening of a new toll plaza on SR 836 at 97th Avenue, yet expenditures remained flat. Operating ratios remain favorable at 30% in FY 2009, but annual debt service costs and debt per roadway mile have increased substantially over the last five years. Annual debt service increased to \$70.7 million in FY 2009 from \$29.9 million in FY 2005 and debt per mile grew to \$29.2 million in FY 2009 from \$14.2 million in FY 2005. Net revenue senior lien debt service coverage was healthy at 1.73 x in FY 2009, above MDX's target of 1.4x, but is forecasted to decline to 1.45x in FY 2010 and average roughly 1.47x from FY 2011 to FY 2020.

As of April 2010, MDX had approximately \$293 million in cash and investments, of which \$90 million in the Construction Fund; \$29 million in Rate Stabilization Fund; \$95 million in debt service and debt service reserves and another \$79 million in various funds.

#### CAPITAL PROGRAM: LARGE, COMPLEX PROGRAM PROCEEDING AS EXPECTED

The current issuance will provide for the MDX's Five-Year(2011-2015) \$494 million capital program to upgrade and expand system roadways and implement ORT. The capital program includes fully funded ORT implementation and additional projects include capacity improvements on SR 836 and SR 874; interchanges reconstruction at SR836/87th Ave; joint participation projects with Florida Department of Transportation and several planning, design and environmental studies. The projects aim to address below average service levels on segments of the expressways related to non free-flow traffic identified in the consulting engineer's report for portions of SR 836 and SR 874. Due to the current economic conditions, actual project costs have been lower than budgeted, which benefits MDX. Approximately 68% of the program is under construction or in final design, and 27% in design/build. MDX maintains a program contingency reserve currently at \$8.5 million and provides for cost of escalation of approximately 3.0% per year until year of construction.

In our view, the risks associated with the ORT conversion are being mitigated by strong management oversight and a new 10-year vendor contract for system implementation; equipment; service center operation; and violations processing and enforcement. The contract covers a three-year implementation period, plus seven additional option years and 10 years of maintenance. The contract includes high performance thresholds for the vendor and liquidated damages and non-performance penalties for failure to deliver the system as scheduled. Notably, MDX retains software rights if the contract is terminated. Under Florida law, uncollected tolls are non-criminal traffic infractions that, if unpaid, can result in three points on the driver's license and driver's license suspension, a strong incentive for non- electronic customers and toll violators to pay tolls.

#### Outlook

The stable outlook reflects Moody's expectation that conversion to ORT will proceed on schedule and within budget and that actual toll transactions and revenues will be in line with forecasts. The outlook is also based on achieving net revenue debt service coverage ratios at or above 1.4x for senior bonds.

#### What Could Change the Rating - UP

Completion of MDX's capital improvement program and ORT projects on-time and within budget combined with demonstrated ability to generate forecasted toll revenues and provide or exceed forecasted DSCR could place upward pressure on the rating.

#### What Could Change the Rating - DOWN

Lower than forecasted transactions and revenues from ORT, significantly increased costs to implement the remaining capital projects, or unanticipated increases in the scope or scale of projects combined with lower than forecasted DSCR and reserve levels could exert downward rating pressure.

#### KEY INDICATORS:

Type of System: Established, regional multi-asset toll road

Size of System: 33.6 miles

Traffic Volume, FY 2009: 116.1million transactions

Average Annual Growth in Traffic, 2008-2009: -1.8 %

Average Annual Growth in Toll Revenues, 2008-2009: 2.4%

Net Senior Debt Service Coverage, FY 2009: 1.73x

Forecast Senior Debt Service Coverage, FY 2010: 1.45X

Operating Ratio, FY 2009: 30.4%

Debt per Roadway Mile: \$29. 2 million

Outstanding Debt: \$921.2 million

31% Variable interest rate debt - all swapped to fixed

#### CONTACTS

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The last rating action with respect to MDX was on August 18, 2006 when a municipal finance scale rating of A3 was assigned to MDX's senior lien bonds. That rating was subsequently recalibrated to A3 on a global scale on May 10, 2010.

The principal methodology used in rating the Miami-Dade Expressway Authority's revenue bonds was "State and Local Government Owned Toll Facilities in the United States," which can be found at [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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