STANDARD & POOR'S RATINGS SERVICES

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**Summary:**

# Lee County, Florida; Toll Roads Bridges

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## Summary:

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| *Unenhanced Rating* | A-(SPUR)/Stable | Affirmed |
| **Lee Cnty toll rev (CIFG)** | | |
| *Unenhanced Rating* | A-(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

## Rationale

Standard & Poor's Ratings Services affirmed its 'A-' rating on Lee County, Fla.'s transportation facilities revenue bonds. The outlook is stable.

The rating reflects our assessment of the credit profile of a three-bridge system that has stable operating margins, no additional debt needs, and traffic trends that have not yet stabilized.

More specifically, the rating reflects what Standard & Poor's considers:

- A well-balanced financial operations with the Sanibel Causeway, Cape Coral Bridge, and Midpoint Memorial Bridge representing approximately 37%, 32%, and 31% of fiscal 2011 net revenues, respectively;
- A lack of significant competition from toll-free roads, combined with the county's covenant not to build competing facilities unless they will become part of the three-bridge system; and
- Historically good senior debt service coverage, which has been no less than 1.7x since 2008, despite lower traffic levels, and is budgeted to be 1.7x in 2012; and
- No plans to issue additional debt, according to management.

In our view, these strengths are offset by the following credit weaknesses:

- Limited rate-setting flexibility, evidenced by infrequency of toll rate increases, partial rollbacks on some recent toll schedule increases, and an inability to distribute toll rate increases across the entire system;
- Lower traffic levels, which could pressure financial margins; and
- The potential for the system's debt burden to increase or the liquidity position to weaken as a result of funding other county transportation projects due to the open flow of funds and interlocal agreements.

The transportation facilities revenue bonds are secured by net revenues of Lee County's transportation facilities. The transportation facilities consist of the Sanibel Causeway, the Cape Coral Bridge, and the Midpoint Memorial Bridge. Although all of the bridge system's revenues secure the bonds, the county operates each bridge so that each is self-sufficient. The Cape Coral and Midpoint Memorial bridges are different from the Sanibel Causeway in that a higher percent of traffic on these bridges consists of motorists traveling to and from work or for company business, because the two bridges serve motorists who live in Cape Coral who commute to Fort Myers. Traffic demand across the entire system is susceptible to a moderate degree of seasonality, with February-April monthly traffic levels typically higher than the system's average monthly traffic levels. Causeway traffic is much more seasonal during February-April relative to the county's other two toll facilities.

The county's transportation facilities have approximately $227.5 million in debt outstanding, consisting of $165 million in transportation revenue bonds, $37.0 million in capital and transportation facilities revenue bonds (series 2003), $1.5 million in interest-free loans from the Florida Department of Transportation (FDOT), and $24 million interfund loan. The series 2003 bonds as well as the FDOT and interfund loans are subordinate to the transportation facilities revenue bonds. No swaps are outstanding at present, and the county has stated it has no plans to enter any swaps. Lee County also does not have any variable debt outstanding related to the transportation facilities.

Fiscal 2012 traffic has demonstrated some signs of a recovery, following negatively trending traffic since fiscal 2008. Traffic declined 11.7% and 1.0% in fiscal years 2009 and 2010, before flattening out in fiscal 2011 at 17.3 million vehicles. Traffic for fiscal year-to-date through February is up 3.1% in the same period last year, and management is conservatively budgeting for flat traffic for the year.

From fiscal years 2008-2011, senior debt service coverage (DSC) was relatively stable, ranging from 1.70x to about 1.78x. Net revenues provided 1.74x coverage in fiscal 2011 and is budgeted to equal 1.71x in fiscal 2012 based on stable traffic and revenues. Before 2008, senior DSC was stronger, ranging from 1.9x-2.9x from fiscal years 2004-2007. The decline in coverage is attributable to higher debt service requirements, a partial reduction in commuter toll rates for users of the Sanibel Causeway in fiscal 2006 following significant rate increases in fiscal 2005, and declining traffic levels due to the economic recession. We believe Lee County could have prevented the partial rollback in the Sanibel Causeway toll rates if it had implemented increases across the entire three-bridge system instead of significantly raising tolls on only one of its facilities. Fiscal 2011 average toll rates for the Cape Coral Bridge, Midpoint Memorial Bridge, and Sanibel Causeway were $1.68, $1.75, and $4.25, respectively.

Since November 2007 (fiscal 2008) the county began collecting tolls in one direction only on the Cape Coral and Midpoint Memorial bridges. As a result, tolls on each bridge increased to $2.00 from $1.00. It had previously collected tolls on each bridge in both directions.

The Lee County Department of Transportation, which is responsible for all transportation and engineering in the county, operates and maintains the facilities. Although the bridge system's total net revenues secure the bonds, the county operates each bridge so that each is self-sufficient. For this reason, Lee County only increased the toll rates for the Sanibel Causeway because proceeds of the 2005B bonds financed the cost of replacing and improving the causeway bridges and redesigning and reconstructing its toll facility.

On Nov. 1, 2004, the county put into effect a new toll schedule for the causeway. It revised the tolls, however, due to a settlement between Lee County and the city of Sanibel, whereby the county and the city agreed to reduce causeway commuter discount program tolls, which had risen significantly.

The county raised causeway tolls to cover anticipated increases in debt service as a result of debt-financing a new causeway. In November 2004 (fiscal 2005) cash toll rates on the causeway increased to $6.00 from $3.00 for cars, while reduced fares for cars increased to $3.00 from 50 cents. The cash toll for multi-axle vehicles is based on $3.00

per axle. Annual unlimited and reduced fare annual programs rose to $600 and $300, respectively. As a result of the settlement between the county and the city of Sanibel, causeway toll rates were revised in November 2005 (fiscal 2006). Annual and semiannual unlimited program fees changed to $400 and $300, respectively, while annual and semi-annual reduced fare programs fell to $67 and $50, respectively.

Before November 2004, the causeway discount programs had been adjusted at various times; the $3 cash toll, however, had not changed since the bridge was built in 1963. The county has no programmed changes in any of the toll rate structures on any of the facilities nor are there any expected at least through this current fiscal year, which ends Sept. 30, 2012.

Passenger cars constitute about 98% of total traffic for the entire three-bridge system, with each bridge contributing about one-third of net revenues. The Sanibel Causeway, Cape Coral Bridge, and Midpoint Memorial Bridge represent approximately 37%, 32%, and 31% of net revenues, respectively, for fiscal 2011. About 57% of toll-paying traffic pays tolls electronically.

We believe Lee County does not have any additional debt needs with regard to the transportation facilities. The board has approved approximately $8.2 million of toll-supported projects through 2016. Of priority is a roadway widening project in Cape Coral that will begin in 2014, as well as the design portion of the Big Carlos Pass Bridge replacement in 2016. Funding sources for projects beyond this time frame have not been determined; however, additional phases of existing projects are likely.

In our opinion, the county has a relatively strong liquidity position. As of Feb. 14, 2012, Lee County had an unrestricted cash balance of approximately $13.7 million, which equals 507 days' cash on hand, based on the county's operating budget for the transportation facilities. Although this amount is lower than that maintained from fiscal years 2004-2011, when the county's cash balance ranged from to $21.8 million-$34.7 million, we still consider it strong. In our opinion, it's important that the county maintain a strong liquidity position for its transportation facilities given that it is currently satisfying its debt service reserve requirement with surety policies with providers that are rated either speculative grade or no longer rated by Standard & Poor's.

The county has satisfied the debt service reserve requirement, which equals maximum annual debt service, with surety policies. It has such policies for its transportation revenue bonds series 2004B, 2005A, and 2005B. MBIA Insurance Corp.'s (B/Negative/--) surety policy for the series 2004B and 2005A bonds provides approximately $13.5 million in coverage. CIFG Assurance North America Inc.'s (not rated) surety policy for the series 2005B bonds provides approximately $4.9 million in coverage. Lee County does not have to replace a surety provider if the credit rating on it drops below a certain level. We understand that the county does plan to replace either surety at this time.

## Outlook

The stable outlook reflects our expectation that the county will continue to maintain a strong liquidity position for its transportation facilities and that coverage will be maintained at or better than current levels. We do not expect to raise the rating during the next two years.

## Related Criteria And Research

USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007

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