FitchRatings

Fitch Affirms Miami Parking System, FL's Revenue Rfdg Bonds at 'A'; Outlook Revised to Stable

Fitch Ratings-San Francisco-07 December 2017: Fitch Ratings has affirmed the City of Miami, FL Department of Off-Street Parking's (DOSP, the department or the authority) approximately $65.04 million of outstanding series 2009 A & B parking system revenue bonds at 'A'. The Rating Outlook has been revised to Stable from Positive.

KEY RATING DRIVERS

The rating reflects the authority's monopoly over key off-street and on-street parking in Miami's thriving central business district. Though parking revenues tend to be correlated with the economy and could be volatile, this is partially offset by DOSP's diverse system of assets and a history of strong revenue generation. The rating is further supported by the authority's flexible annual rate-setting ability and its level debt service profile, which together have generated an increasing debt service coverage ratio (DSCR) profile that should remain in the 3.0x range even in a scenario of very modest growth. The discretionary practice to transfer surplus cash flow to the city may limit the system's ability to build and maintain liquidity; however, leverage of 3.1x on a net debt-to-cash flow available for debt service (CFADS) basis is moderate and continues to evolve downward.

The Outlook revision reflects the increasing medium to long-term risk of the parking industry, due to the use of ridesharing services and development of driverless car technology. While the DOSP's metrics remain strong, potential new debt issuances and the evolving technologies lend uncertainty to the long-term future.

Dominant Position with High Demand

The DOSP holds a monopolistic position over essential on-street parking spaces in the Miami central business district, which account for 56% of operating revenues. The department's operation of parking garages, surface lots, and on-street parking spaces provides revenue diversity and minimizes reliance on any single system component.

Flexible Rate-Making Ability

The DOSP's authority to increase rates at an average annual rate of 3% per year without city council approval has helped the department maintain a solid operating profile and generate debt service coverage levels above 2.0x historically. The DOSP makes substantial transfers to the city after payment of debt service each year; however, transfers are made entirely at their discretion and there is no minimum required amount.

Developing Capital Plan

Due to significant delays in projects, management is currently in the process of updating their capital plan. The update will include the removal of a project from the capital plan, as well as plan for some possible new projects. Due to the change in the capital plan, management has stated that there will be a potential new debt issuance in fall 2018, though definitive amounts have not been established.

Level Debt Structure

The DOSP's debt profile consists of all fixed-rate debt and level annual debt service, with over 25% of debt maturing in 10 years. Debt covenants are sound with an additional bonds test (ABT) of 1.5x and a cash-funded debt service reserve fund (DSRF).

Financial Profile

Net debt-to-cash flow available for debt service (CFADS) has progressively stepped down each year, at 3.1x for FY2016, compared to 3.2x in FY2015. The DOSP's debt service coverage ratio (DSCR) decreased 6 basis point to 3.4x in FY2016, though has increased all other years since 2010. The authority's coverage has averaged 2.8x since 2010. DOSP also holds sufficient liquidity of 162 days cash on hand (DCOH), which provides additional cushion against short-term declines and expected lifecycle costs associated with older parking garages.

PEER GROUP

The DOSP's peers include Philadelphia Parking ('A-'/Stable Outlook), Baltimore Washington Airport ('A'/Stable Outlook), and Pennsylvania Economic Development Authority Harrisburg Parking ('BBB-'/Negative Outlook). The Philadelphia Parking system and Baltimore Washington Airport are viewed as peers even though their exposure is linked to airport operations, as their narrower revenue stream constrains their ratings to similar levels. The Harrisburg parking system is modestly sized but has relatively high leverage above 9.0x compared to peers. Miami itself has the highest coverage among peers at 3.4x (FY2016), and the third highest leverage, but at just 3.1x (FY2016).

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Given the increasing risks to the parking industry, upward rating action is unlikely

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Expense growth in excess of 100 basis points per year
--Anticipated borrowings without commensurate rate adjustments that materially affect the long term net debt-to-CFADS metrics
--A sustained decline in DSCR below 2.50x

CREDIT UPDATE

Preliminary unaudited results for fiscal 2017 show a decline in revenues despite the system's longstanding trend of operating revenue growth, though unaudited numbers still remain above the FY2017 budget. There were no rate increases in FY2017, but the DOSP has the authority to increase rates up to 3% annually or cumulatively without city council approval. Rates were typically adjusted every five years, with the last increase in FY2015.

The strong FY2016 audited revenue performance was favorable, with revenues growing 8.1% to $34.2 million from increased parking demand and utilization. DSCR decreased six basis points to 3.4x, compared to FY2015, though still remains well above 3x. Through various other funds and excess revenues well above expectations in FY2017, DOSP increased the transfer to the city to $8.9 million from the budgeted $7.2 million. The transfer is not determined per a prescribed formula, but rather at the authority's complete discretion. Fitch expects future satisfactory DSCR, assuming that the DOSP implements future rate increases in accordance with the 2009 parking ordinance and continues to manage operating expenses. Growing income combined with timely debt service has also led to progressive deleveraging each year, with net-debt-to-CFADS dropping from 3.2x in FY2015 to 3.1x in FY2016.

Approximately 25% of the current debt matures in 10 years, though additional borrowing is anticipated in order to complete the new capital plan. The previous three-year capital improvement plan totalled $31 million and included the construction of three new garages, IT developments, and basic maintenance, however, due to significant delays in projects, management is currently in the process of updating the plan.

Fitch Cases
Fitch's base case, which spans 2018 - 2027, assumes no underlying volume growth, but a rate increase in 2019 consistent discussions with management, and 1% annual expenditure growth. In this scenario, DSCR reaches a 10-year average of 3.67x (minimum 2.97x in 2018) and leverage declining annually to 1.75x by 2027.

Fitch's rating case projections forecast no rate increases and stressed expenditure growth of 3% per year. Under these stresses, DSCR reaches a 10-year average of 2.43x (minimum 1.86x in 2027), and leverage climbs to 3.46x in 2021. Despite these stresses, metrics are still robust, reflecting the DOSP's historical success and resilience.

Contact:

Primary Analyst
Sean Su
Analyst
+1-415-732-7576

Fitch Ratings
650 California Street
San Francisco, CA 94108

Secondary Analyst
Mark Lazarus
Associate Director
+1-312-368-3171

Committee Chairperson
Chad Lewis
Senior Director
+1-212-908-0886

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017) (https://www.fitchratings.com/site/re/902689)

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