Industry Top Trends Update

Transportation Infrastructure

Some signs of more equitable risk share in P3s

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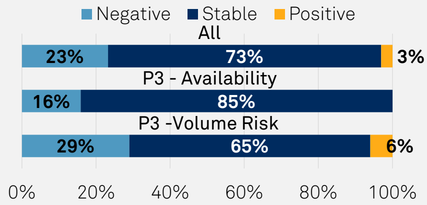
Outlook Distribution



Ratings Statistics (YTD)*

	P3 Availability	P3 Volume risk	All
Ratings	13	17	30
Downgrades	0	0	0
Upgrades	1	1	2

Ratings data as of end-June 2022. * Year-to-date

What's changed?

Surge of financing. On the heels of lower interest rates in the first half of 2022, there were multiple refinancings of debt on public-private partnership (P3) toll roads, as well as new issuances. Rising interest rates could temper this trend.

Increased focus on construction risks. While some projects are either on track or just completed construction, some are seeing significant delays owing to the COVID-19 pandemic, and, more recently, dump truck disruptions around Toronto.

What to look out for?

Shifts in risk sharing. Many major contractors in North America have shifted away from fixed price contracts following several large cost overruns. New approaches are emerging, such as alliance contracting and progressive design-build contracts. These can lower the risk to the contractor but increase risk to projects. We have also seen shifts in risk transfer between public and private sector, with the public sector retaining greater risk, particularly during the construction period.

Transportation is the big winner of the IIJA. The significant flow of new funds from the Infrastructure and Investment Jobs Act (IIJA) is a credit positive. However, prolonged high inflation will erode the federal investment in infrastructure. Nevertheless, we see the law as being an enabler of the greater use of P3, particularly for larger projects that use the Transportation Infrastructure Finance and Innovation Act (TIFIA) or Railroad Rehabilitation and Improvement Financing (RRIF) programs.

Physical risk is rising given the frequency of severe weather events and projects' long-term nature and fixed locations--particularly transportation assets like airports, ports, and projects under construction. Despite this, adaptation measures exist that may help build resilience to the impacts of extreme weather and long-term climate change.

What if there's a recession?

Reduction in traffic and revenues. We would expect a fall in traffic should the U.S. enter a recession, leading to a fall in revenues. While traffic and revenues on many transportation projects have recovered to pre-pandemic levels, some have not. These projects would be under greater pressure.

Limited investment-grade impact. The essential nature of transportation assets and the structural protections that provide liquidity in times of stress have historically helped transportation projects weather recessions. Moreover, investment-grade rated transportation projects are subjected to stresses equivalent to the Great Recession as part of our analysis. Assuming a recession no worse than that, downgrades of investment-grade projects will likely be limited.

Counterparty pressure. A recession coupled with supply chain issues and higher inflation may impact operating performance of construction contractors with high percentage of fixed-price contracts. This could cause project delays or possibly, where there is a linkage to the contractor, a deterioration in project credit quality.

Latest Related Research

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