Fitch: Port Authority Capital Program; Large in Size and Risk.

Fitch Ratings-New York-23 February 2017: The Port Authority of New York and New Jersey's proposed 2017 – 2026 capital plan calls for $32.2 billion in total spending to meet its diverse transportation infrastructure needs. The overall size of the program, which is $4.6 billion larger than the previously adopted 10-year capital program, coupled with the inherent challenge of focusing on core assets and responsibilities while controlling the overall budget of high profile projects within a limited revenue envelope, will be one of the primary risks facing the agency for years to come, according to Fitch Ratings.

As compared to earlier capital programs, which had significant spending associated with the World Trade Center real estate complex, the new capital program focuses on transportation infrastructure renewal, expansion, and connection projects, as well as partnership (public and private) initiatives. Leading projects include: the Port Authority Bus Terminal Replacement ($3.5 billion), JFK and Lagaurdia Airport infrastructure and access improvements ($2.5 billion), Newark Airport Terminal A redevelopment ($2.34 billion), George Washington (GW) Bridge Restoration ($1.44 billion) and Lincoln Tunnel Helix Replacement ($1.1 billion). Separate partnership programs include: Gateway Tunnel ($2.7 billion) as well as long-term public-private partnership agreements at Laguardia airport's existing Central and Delta terminal buildings.

The underlying funding mix for the capital program at this budget level have relatively equal sourcing from debt borrowings and pay-go capital, supplemented by other revenue sources and grants. Future consolidated bonds expected to be issued total approximately $11.3 billion. However, the plan of finance could be challenged by new unplanned developments related to major maintenance needs and increased borrowings, both of which could impair the agency's ability to preserve financial metrics such as coverage and leverage at historical levels.

Some mitigation to cost overrun risks is evident by the contingencies and reserve set-asides within the overall plan as well as ongoing project reassessments during the program life. Still, any material underperformance in net revenue generation in future years could also contribute to more debt in the funding mix if capital spending cannot be reduced. Similarly, given the age of many core agency facilities, the level of deferred maintenance could lead to variability in the plan, especially if asset deterioration accelerates given either the positive user activity trends or other unplanned events.

Several of the projects will likely cost far more than the spending anticipated during the term of this capital program. For example, the bus terminal replacement program in Manhattan assumes $3.5 billion of costs through 2026; however, the total project cost is an estimate of up to $10 billion. Without a site identified and many planning and environmental approval stages needed for this project, the true cost may be greater. Similar considerations will likely manifest for all of the major regional redevelopment projects. The Gateway Tunnel Project contribution is already a fixed obligation.

Ongoing pressures to Port Authority finances is an area of concern as additional borrowings are assumed. When comparing the 2014 – 2023 capital program to the recently approved program extending through 2026, the expected level of new debt is largely the same at slightly over $11 billion over the forward-looking 10-year period. Still, annual debt service obligations for the consolidated bonds alone are expected to rise from $1.1 billion in 2016 to nearly $1.4 billion in 2021; a 25% overall increase. Operating revenues are projected to rise by a smaller rate of growth; 3.3% annually through 2021. Coverage metrics are likely to remain unchanged, averaging 2.4x, but as the true cost of some of projects become clearer, more revenues will be needed or some coverage dilution will likely occur.

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