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Issuer Brief: The Continued Case for Resilience As a Credit Issue.

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The Continued Case for Resilience As a Credit Issue

The American Association for the Advancement of Science released a study of the San Francisco Bay Area which reflects the potential impacts of rising seas from climate change on the region. According to the study, major consequences of exacerbated inundation risk for coastal areas include saltwater contamination of surface and underground waters, accelerated coastal erosion, wetland losses, and increased flooding. The study estimates that by 2100, more than 480,000 people and $100 billion worth of property in the San Francisco Bay will be exposed to flood risk. It comes from a combination of rising sea levels but also from land subsidence. The study estimates that Portions of Treasure Island, San Francisco, San Francisco International Airport, and Foster City are subsiding as fast as 10 millimeters/year.

And it is not just these factors that are a concern. Storm intensity, associated rainfall, and storm surges affecting the coastal area are likely amplified by the elevated ocean temperature caused by ongoing global climate change. Higher volumes create greater amounts of water to be absorbed which results in higher water tables creating flooding. These create greater localized flood risk in those areas as well. An example is the flooding in sections of Miami due to a rising water table and reduced absorptive capacity.

The credit impact results from the need to install flood mitigation infrastructure, to raise roads or relocate them, and the potential need to relocate significant infrastructure such as airports – as well as the need to find additional revenue sources to support these additional facilities. Significant airport facilities located adjacent to or extended into the water include Logan in Boston, LaGuardia and JFK in New York, and San Francisco International, just to name a few.

Planning for these impacts at the state and local level will intensify more quickly and issuers will likely need to disclose potential credit implications when issuing new deals.

Airports Moving Forward with Rideshare Fees to Boost Revenues

Tampa International Airport (TIA) has begun collecting a per-trip fee on commercial ground transportation vehicles to be phased in over a three-year period. The Hillsborough County Aviation Authority voted to implement the new fee structure starting last August for transportation network companies (TNCs) — such as Uber and Lyft — through the approval of their use and permit agreements. All other ground transportation vehicles such as taxis, limousines and hotel courtesy buses began the new fee structure in February 2018, when a new tracking technology became available.

Taxis, limos, and TNCs would pay $3 the first year, $4 the second year, and $5 the third year.

Rideshare vehicles, off-airport courtesy transport by rental car companies, off-airport parking courtesy vehicles, and hotel/motel courtesy vehicles would pay $2.50 the first year, $3.50 the second year, and $4.50 the third year. Fees would apply for picking up passengers only; customer drop-offs will continue to be allowed at no charge.

The charges were authorized under state legislation signed in May 2017. An automatic vehicle identification system will track taxis, limos, and hotel courtesy vehicles, using a transponder-like device on the windshield like a SunPass. TIA based the commercial vehicle user fees on a study showing use at 14 other airports. It concluded that that TIA's expenses for its operation and maintenance of its ground transportation facilities exceeded the revenue received under prior fee structure. TIA collected $420,000 from cab companies and another $87,000 from limos for using the airport. The new structure plus adding TNCs is expected to bring additional revenue to the airport.

Knoxville, along with Nashville and Memphis, have an operating agreement with Uber. When the Uber driver picks up a passenger and drives into the area covered by the airport's geofence, that will trip a $2.50 charge to Uber.

These sorts of arrangements will allow airport operators to generate revenues from the ride share services to offset lost revenues from decreased demand for parking for private vehicles. The evidence is not clear yet as to whether an equilibrium has been established between revenue gains from ride sharing versus lost revenues from decreased parking demand. The development and increasing implementation of such revenue-generation schemes gives us confidence that airports will adapt over the long run and sustain their ability to finance their operating costs and capital needs.

Most airports generally have certain monopolistic attributes that will enable them to significantly increase fees from passengers who transition from driving in and parking their own cars to using ride sharing, but at some level which may be below the net revenues from such fees, they may run into resistance. It will take considerable time for these patterns to play out, and airports will have to be vigilant and assertive in responding to these transitions.

An Update on the Gateway Project

One of the shortcomings of the Trump administration infrastructure plan is the low level of federal funding. The spotlight was directed on this when the Secretary of Transportation appeared before the House Transportation and Infrastructure Committee. Secretary Elaine Chao confirmed for members of a House committee that President Trump doesn't want Congress to include any funding for the planned Gateway Tunnel in an omnibus spending bill. Trump's concern, Chao said, is that the project would consume all of the available federal funding.

This position seems to be designed to stoke opposition to the tunnel in the House where members have expressed concerns that financing for the tunnel would compete with the needs of rural areas. New York and New Jersey want to obtain federal loans totaling $4.29 billion from the Railroad Rehabilitation and Improvement Financing program as well as a federal Capital Improvement Grant. The Railroad Rehabilitation and Improvement Financing (RRIF) Program provides direct federal loans and loan guarantees to finance the development of railroad infrastructure. Other projects seeking loans from the same program include the All Aboard Florida Brightline between Miami and Orlando; the Dallas Area Rapid Transit Cotton Belt line; the Port of Charleston, S.C. intermodal facility; the Port of Everett, Washington terminal upgrades; and the Merchant's Rail Bridge in St. Louis.

New York and New Jersey could apply for loan funding under the federal Transportation

Infrastructure Finance and Innovation Act (TIFIA) for the Gateway project. The website for TIFIA says local repayments of federal loans are treated as a state or local share of costs. Chao apparently has not read their own website as she contends that loan proceeds cannot be counted as equity contributions from the two states for the tunnel. Chao rejected suggestions that the federal government made any commitment to the Gateway project in the past contradicting the understanding of two governors and senators from each state.

Now with the government facing a shutdown deadline this coming weekend, funding for the Gateway Tunnel became a major stumbling block in the effort to adopt an omnibus spending bill to fund the government in lieu of a formal budget agreement. House leadership had been reluctant to include anything in a bill that would cause the President to veto the legislation. However, Amtrak will be able to contribute $388 million to Gateway using its Northeast Corridor Account, while New York and New Jersey will receive another $153 million from the Federal Transit Administration's High-Density States and State of Good Repair grant programs. In addition, the bill will also provide $2.9 billion in discretionary grants to DOT that could be used to fund a portion of Gateway. The Gateway builders, which include Amtrak and officials in New York and New Jersey, have already applied for some of those grants.The deadline for passage of the spending bill to avoid a government shutdown is 12 a.m. this Saturday the 24th. Both the House and Senate passed a $1.3 trillion spending bill and sent it to the President's desk. President Trump has threatened to veto the bill. As of press time, he had not acted.

Issues like this contribute to the pessimism about the timing of Congressional funding for any infrastructure program before year-end.

Neighborly

by Joseph Krist

Posted 03/23/2018

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