

Bond Case Briefs

Municipal Finance Law Since 1971

Ridesharing Continues to Grow at Airports; P3s in PA; and Washington Transit Hits a Snag.

These Insights are brought to you by Court Street Group Research.

Ridesharing Growing at Airports

HTNB is an infrastructure advisory firm which recently released a survey of how airline get passengers get to and from airports. The findings highlight trends which, if they continue, will impact airport and related credits. The HNTB survey found that while the use of ride-sharing services is relatively low compared to other available alternatives, it is increasing. Almost four in 10 (37%) responding air travelers have used ride sharing to get to and from airports. Among this group, 42% have used it within the past year, a notable increase of three times versus 14% in the past one to three years.

HTNB identified one element which is increasingly troubling to analysts of these credits. "This rapidly growing inclination to use ride-sharing services for travel to and from airports is important on many levels, including the potential of increased vehicular congestion at airports as well as impacts it will have for traditional airport revenue sources. One direct revenue example could result from people who use ride-sharing instead of driving themselves and no longer needing parking on-site at airports."

In addition to a negative impact on the contributions of parking revenue to general airport revenue bond support, a decrease in demand for rental cars would negatively impact debt backed by revenues derived from stand-alone rental car facilities.

[As we wrote recently, more airports are considering user fees for ridesharing companies.](#) The 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.

We expect this trend to continue.

P3 Progress in the Keystone State

The Pennsylvania Department of Transportation announced last week that the Rapid Bridge Replacement project, the state's public-private partnership (P3) for bridges had 390 bridges complete and open to traffic with 50 under construction. Through the project and other PennDOT investments, more than 1,600 bridges were repaired or replaced from 2015-2017 and the number of structurally deficient state-owned bridges, or bridges considered in poor condition, has dropped to 3,098 from a high of more than 6,000 in 2008.

The private group, Plenary Walsh Keystone Partners is financing, designing, constructing and maintaining the bridges. PennDOT will be responsible for routine maintenance such as snow plowing, debris removal and incident first response. The consortium of companies within the development entity includes, Plenary Group USA Ltd. and Walsh Investors, LLC, which are providing financing and long-term management; a joint-venture construction team of Walsh Construction Company and Granite Construction Company; HDR, Inc., which is the lead design firm; and Walsh Infrastructure Management, which will provide maintenance for a 25-year period upon completion of the bridges.

As we have noted before, there is a place for private capital in the municipal space, including user fee-supported projects and P3s. Policy-wise, this has always been the case, but getting voters to approve capital spending for these projects has been difficult. The classic case is the Interstate, where the attitude is often “this was already paid for,” despite the fact that major maintenance now will cost 10-20 times as much as the original project. There are also entrenched political resistances to user pay, such as from trucking companies on highways, but this is a transition that will likely have to happen given the current political climate in Washington in which federal funding has not been increased and doesn’t appear to be coming any time soon. The lack of an infrastructure bill will require state and local governments to find more sources of capital for projects.

Washington Metro Funding Hits a Snag

Virginia’s House of Delegates voted 50-48 to block proposed Northern Virginia hotel and real estate transfer tax increases to pay for Metro. The proposed changes included increasing from 2 to 3% the tax on hotel stays in areas served by or soon to be served by Metro and an increase in a real estate transfer tax from 15 cents to 20 cents per \$100 of assessed value.

The result is that to meet Virginia’s share of regional funding costs for the Metro, money in the Commonwealth’s transportation budget must be reallocated from road projects throughout Virginia. The rejected plan would have effectively resulted in Northern Virginia residents paying for a transit system that primarily serves them. Now, the entire transportation constituency in Virginia will effectively pay for a regional asset.

The actions in Virginia highlight the ongoing difficulties that the DC Metro system faces in maintaining its capital assets in the face of operating difficulties and customer dissatisfaction. The choice as it is being posed by the states of Maryland and Virginia as one between roads and mass transit. This comes at a time where the provision of transit facilities – mass or individual – nears an inflection point in terms of public attitudes and demands, funding, and technology.

The situation is instructive as the federal debate with different interests being pitted against each other as the result of the Administration’s less than robust funding proposal inherent in its infrastructure plan. The question is no longer roads versus mass transit but what kind of roads and vehicles are going to be developed, what modes of transportation will be available and desired, and how are these changes going to be funded. That discussion seemed to get lost in the debate over relatively small amounts of funding in the Virginia legislature.

Vernon, CA Adopts Utility Tax to Reform Finances

Vernon, CA is a small industrial city in Los Angeles County constructed almost entirely to support industry. Business located there are heavily concentrated in the food processing, chemical processing and container packaging sectors. There are only 87 registered individuals registered to vote in the City versus more than 1,900 businesses located there. Over time, this has created some problems for the City’s financial operations especially its electric system which sells 99% of its load to the industrial entities located in the City. The City has historically depended on subsidies

transferred from the revenues of the electric utility to fund General Fund expenses.

Now, the City's residents have taken a step to address that relationship. Last week, voters approved a 6% tax on industrial utilities consumption that the city projects will add around \$12 million annually to the its general fund for the next decade. This money will replace transfers from the utility to the general fund. This will provide more liquidity to the electric utility as well as provide a more stable revenue stream to the City. Cash transfers from the utility historically comprised about 25% of total inflows to the City's account; without the payments, the City would have a substantial deficit each year. The City projects future tax revenue to equal transfers made by the utility in recent years. One weakness in the legislation is that it includes provisions to retire the tax after 10 years, well ahead of the utility's longest dated maturity, which is 2041.

The 6% tax will apply only to industrial and commercial users of electricity, gas, telecommunications, video and water utility services; residential users are exempt. The exemption of residential users was a key element in garnering electoral support. A previous vote to enact a similar tax failed when it did not exempt residential customers from having to pay the tax.

Posted 04/26/2018 by Joseph Krist

Neighborly Insights