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S&P: Reliable Funding Continues To Support Stable GARVEE Sector View Amid Stubborn Construction Cost Inflation

Key Takeaways

- With most grant anticipation revenue vehicle (GARVEE) ratings in the 'AA' category, S&P Global Ratings views the federal-grant-secured transportation sector as stable, reflecting our expectation of reliable funding and continued strong support for transportation infrastructure investment across all levels of government.
- Funding from the Infrastructure Investment and Jobs Act (IIJA; also known as the Bipartisan Infrastructure Law) in federal fiscal 2022 totaled $58.2 billion for the Federal-Aid Highway Program and $13.4 billion for transit formula grant programs sourced from the Highway Trust Fund. Based on estimates of outlays, the fund is projected to be exhausted in 2026.
- Construction project cost inflation and labor shortages continue to erode the anticipated benefits of IIJA funding, with overall construction input prices 38.2% higher in March 2023 than in January 2020 and down just 0.9% from last year.
- Our AA+/A-1+/Stable U.S. sovereign credit rating is linked to both stand-alone GARVEE ratings and those backstopped GARVEE ratings that benefit from an additional pledged security such as state gas taxes.
- Our analysis of key financial metrics for fiscal 2022 shows that GARVEE programs have very strong maximum annual debt service coverage that we do not expect will materially erode as states and regional transportation agencies potentially issue more debt to maintain and expand investment in roads and transit.

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