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Toll Road Bankruptcy Reflects Growing Pains of P3 Sector, S&P Says.

WASHINGTON D.C. (Standard & Poor's) Sept. 23, 2014–The bankruptcy filing of the Indiana Toll Road on Sept. 22, 2014, may be the result of an overaggressive capital structure that shifted too much risk to private investors, according to analysts from Standard & Poor's Ratings Services. The Indiana Toll Road, which Standard & Poor' did not rate, was an early-stage public private partnership (P3) transaction in the U.S. We do not believe this bankruptcy will slow the growth of current-generation transportation P3 projects, which have different risk characteristics.

The Indiana Toll Road is one of several "brownfield," or existing, road transactions that relied on overly optimistic traffic volume projections to support an aggressive capital structure. A consortium of investors bought the right to operate the road in 2006, while the Indiana Finance Authority retained physical ownership. Similar projects were more common before the economic downturn and some analogous projects have had difficulty achieving their projected traffic forecasts in recent years.

"These types of deals, which feature an accreting debt structure, are not seen in the marketplace today, but were commonplace in the first generation of these toll-risk projects–what you might call 'Version 1.0' of public-private partnerships," said Steve Dreyer, managing director of the U.S. Utilities & Infrastructure Ratings practice at Standard & Poor's. "Investors and project sponsors have addressed risks differently in more recent transactions, which itself was a driving force behind our newly updated project finance rating methodology. This evolution is both expected and natural, and in our view will ultimately help bridge the substantial financing gap between government resources and public infrastructure needs."

Standard & Poor's will host a discussion on the risks associated with financing public-private roadways like the Indiana Toll Road at its 55 Water Street offices on Thursday, Sept. 25. The discussion, entitled "Traffic and Revenue Forecasting: Is This Risk Too Much For The Private Sector To Bear," is held in conjunction with the International Project Finance Association. Members of the media are invited to attend by registering through the association's website.

Analysts from the Utilities & Infrastructure practice will be available to discuss the sector with reporters in attendance.

Forecasting traffic demand remains the key risk for P3 toll road and managed lane projects. Standard & Poor's newly released project finance criteria focus in detail on these major risks for volume-exposed P3s. Projects with well-established demand, few competing routes, and reasonable toll rates supporting sustainable traffic and revenue growth have been able to achieve investment-grade ratings.

Standard & Poor's publicly rates eight P3 road transportation projects in the U.S., of which half (Elizabeth River Crossings Opco LLC, 95 Express Lanes LLC, and NTE Mobility Partners Segments 3 LLC, and Autopistas Metropolitanas de Puerto Rico LLC) rely on toll revenues. The rest are availability projects where the project is not exposed to volume risk. Under an availability P3, the project does not take volume risk. Instead, a typically high-rated state agency awards the right to a project to build and operate the road and the project receives regular government payments if it meets key performance targets. Recent examples of rated availability transactions include I-4 Mobility Partners Opco LLC, and I-69 Development Partners LLC. For volume and availability transport P3s, the U.S. lags other regions around the globe, where we have assigned about 45 ratings to privately owned transportation projects.

The number of U.S. P3 projects has been growing in recent years. Notably, Virginia, Texas, Florida, Indiana, and Colorado are deploying P3 projects, including investor-owned toll roads, and 33 states and Puerto Rico have enabled P3 legislation.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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