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S&P: Why U.S. Availability Projects are Not Rated the Same as the Counterparty.

Because federal and state spending on U.S. infrastructure is limited by budgetary issues, and banks, long a mainstay of private funding for big projects, continue to curb lending while they shore up their balance sheets, more entities are looking to public-private partnerships (P3s) as a viable option for financing. So-called “availability projects” are a type of P3 project.

Availability projects get their name because they earn revenue from payments from the government sponsor for operating and maintaining the project in line with performance-based specifications. The project is developed by a government, such as a state transportation department, that enters into a contract with a private entity to design, construct, finance, operate, and maintain the project for the concession term, which is typically 30 years in the U.S. Payments depend on the project’s reaching certain milestones, such as construction progress and completion by a contract’s deadline, or performance and availability standards for the operation and maintenance of the project. Failure to meet the standards normally results in an abatement against the availability payment.

Standard & Poor’s Ratings Services rates 85 availability projects globally, the majority of which are in Europe (55%) and Canada (29%). Most of our rated projects are social availability projects such as student accommodation and health care facilities (75%), and the balance are road (25%) assets. The average rating is in the ‘BBB’ category. In the U.S., the use of availability projects is growing. Most are in the transportation sector because these projects have more options for low-cost financing, such as tax-exempt debt and a federal loan program as part of the Transportation Infrastructure Finance and Innovation Act (TIFIA). However, we expect the market for social availability projects to grow as more states and cities develop such programs.

Yet, even once construction is complete, the ratings on an availability project are not equal to the ratings on the government sponsor, even though the sponsor is the sole source of project revenue.

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