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Moody's: Governments Well Positioned to Handle P3 Financial Obligations.

Using public-private partnerships to develop large public projects has had a “limited impact” on governments’ credit profiles, Moody’s Investors Service concluded.

Most governments “have proved resilient” in meeting both negotiated financial obligations — such as making availability payments — and potential contingencies, the credit rating agency said in a press release announcing a new report on its findings (paywall). A Moody’s representative offers several reasons for this finding.

“Funding for PPP projects is often spread over a long period of time. Fiscal commitments are often small in scale relative to the size of a government’s balance sheet and revenue sources,” explained Kathrin Heitmann, an analyst in Moody’s Project Finance and Infrastructure team.

The United Kingdom, Canada and Australia have the most experience conducting P3s and have developed strong secondary and refinancing markets and legal frameworks to support P3s, Moody’s pointed out.

The United States, on the other hand, has been slower to adopt the procurement method, in part because of the ready availability of municipal bond financing for large infrastructure projects. Moody’s estimates, for example, that only 0.5 percent of California’s net tax-supported debt is associated with P3s. In Florida the amount is 11.4 percent and in triple-A rated Indiana, about 24 percent, reported Reuters. As a result, developers view the United States as the world’s largest virtually untapped P3 market, noted the news agency.

Countries whose credit profiles are most likely to be affected by real or potential P3 financial obligations are those that are struggling through economic downturns or “have low creditworthiness,” reported Moody’s.

The ratings agency acknowledged that its findings are not comprehensive because the financial details of P3s that have been negotiated are not always disclosed fully.

“Additional reporting provided by some governments beyond mandatory reporting requirements enhances transparency and facilitates our assessment of both contractual and contingent PPP payment obligations,” said Heitmann.

By NCPPP

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