
Moody's Report Tracks P3 Credit Risk, Confidence In the U.S., Canada and Europe.

Interest in using public-private partnerships to develop public projects is slowly growing in the United States, remaining steady in Canada but declining in Europe, Moody's Investors Service has found. The ratings agency also concluded that variations in approaches to financing P3s from one region to the next can affect P3 credit ratings.

Moody's publicly rated 10 Canadian P3s, seven in Europe and three in the United States, in a new report, (paywall) which "illustrates a return to growth in demand for the asset class," Moody's said.

However, different financing approaches can affect the perceived creditworthiness of projects, the agency pointed out

"We've seen some similarities across the regions in how P3s structure their credit profiles and use insurance projects to mitigate risk. But overall, local differences remain very important and lead to material differences between projects from a credit perspective," said Catherine Deluz, Moody's senior vice president.

In Canada and Europe, private partners decide what level of bonding is required, based on the project's risks and the lender's requirements. Many U.S. state governments, on the other hand, require private partners to post material performance bonds to support P3 obligations.

Moody's also found that five projects in the United States and Europe used a deferred draw bond to mitigate the cost of holding an asset that is associated with most bond funding and the agency expects to see more use of these bonds in the months ahead.

Moody's noted that 83 percent of recently rated P3s have received government funding during the construction phase and that an increasing number of municipalities and local authorities are procuring projects through P3s.

Project risks Moody's attributes to government partners include the potential for an agency that is making availability payments to default or make late payments and potential financial uncertainty governments that rely on gas and oil revenues or financial institutions with large oil and gas portfolios face.

The weakening of debt structures, particularly in North America, is yet another risk the report singled out. However, all of the above-mentioned weakening trends may be offset by increased confidence in P3s, based in part on their low level of default, the agency concluded.

NCPPP

April 14, 2016