

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: I-69 Issues Do Not Present Credit Risk for Indiana.

Fitch Ratings-New York-12 June 2017: Recent issues regarding a public private partnership project (PPP) to rebuild a portion of I-69 are unlikely to affect the state of Indiana's credit profile, according to Fitch Ratings. Fitch recently downgraded the rating on private activity bonds (PABs) issued by the Indiana Finance Authority (IFA) on behalf of the developer (I-69 Development Partners LLC) to 'CC'/Rating Watch Negative. The state is not obligated on those bonds. IFA recently disclosed that it is actively negotiating a state takeover of the project that would include redemption of the PABs and assumption of project completion risk. Fitch's IDR for Indiana ('AAA'/Stable Outlook) already incorporates the par amount of the outstanding PABs, and the estimated exposure for completion risk is well within the state's capacity to absorb at the current rating.

Fitch's recent rating actions on the I-69 PABs reflect various challenges, including substantial construction delays, unresolved disputes between the construction contractor and the IFA and the deteriorated credit quality of Isolux Corsan SA (Isolux), parent of the construction contractor Corsan-Corviam Construcción SA. This has all culminated in an inability to reach a global solution between all stakeholders on the project to avoid a default on the bonds.

As the grantor, IFA (acting on behalf of the state) has been heavily involved in the negotiations. In a recent disclosure, IFA indicated that it has offered to redeem the \$240 million in outstanding PABs with the redemption to be funded by proceeds of a separate IFA issuance. IFA is the state's issuer for appropriation-backed debt, which Fitch rates 'AA+'/'Stable Outlook, linked to the state's 'AAA' IDR and Stable Outlook.. Under Fitch's U.S. tax-supported rating criteria, the par amount of the PABs are already incorporated into the long-term liability burden analysis since the project is an availability payment based PPP with the IFA as the public sector counterparty. Fitch uses the par amount of debt issued by project companies as a proxy for a state grantor's liability on availability payment based PPPs.

The IFA's disclosure also indicated that based on current estimates, the gap between currently available resources within the transaction, and remaining construction costs and outstanding claims costs is \$165 million. Fitch considers this amount, whether met through the state's cash on hand, additional financing, or a mix, to be immaterial to Indiana's credit profile.

At the end of fiscal year 2016 the state maintained available balances of over \$2 billion. Fitch anticipates those levels, while down modestly for planned one-time uses this fiscal year, are still substantial and in excess of \$1.5 billion. Fitch's calculation of the state's long-term liability burden includes \$2.5 billion in debt (including \$900 million for two availability-payment based PPPs). Indiana could absorb additional issuance of \$165 million to fully fund the estimated additional costs of the I-69 project without changing Fitch's 'aaa' assessment of its long-term liability burden.

Fitch will continue to monitor the I-69 PABs and IFA's role in the project. Default on the PABs will not have a direct effect on the state's IDR or appropriation-backed ratings, given Fitch's criteria approach and Indiana's credit profile as described above. Issues around this transaction may affect the state's willingness to enter into future similarly structured PPP transactions. Fitch notes the state recently implemented legislation to increase various transportation taxes and fees, and to

explore tolling of interstate highways, providing additional financing and funding methods for infrastructure needs.

Contact:

Eric Kim
Director
+1-212-908-0241
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Stacey Mawson
Director
+1-212-908-0678

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com