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Fitch Rtgs: Managed Lanes Performance Strong but Untested in Recession

Fitch Ratings-New York-03 December 2019: Performance among Fitch-rated managed lanes (MLs) is strong with fiscal YTD 2019 total revenue rising by a median of 21%, says Fitch Ratings. This is in line with a longer trend of robust ML performance. Growth is supported by accommodative economic conditions, low gas prices, and solid population and generally higher growth in regions with MLs.

MLs typically exist in corridors with free general purpose lanes (GPLs) at or near designed capacity and grow much faster than the corridors they operate in. As a result, a high proportion of marginal corridor traffic growth spills into the MLs instead of the more congested GPLs. This same dynamic leaves MLs more vulnerable to corridor traffic declines, whether caused by recession, increased corridor capacity, or new competing routes.

The MLs sector is young and growing quickly. The proliferation of projects, operational and post ramp-up, provides a critical mass of data not available in recent years. Most MLs projects out-performed our base and rating case projections in most years. Fitch uses this data to form its assumptions as it relates to truck traffic, value of reliability, induced traffic and project extensions.

Although MLs performed extremely well under the U.S.'s prolonged economic expansion, only Orange County Transportation Authority's (OCTA) SR-91 MLs were open during the Great Recession of 2007-2009, when the facility's traffic fell 18% and revenue fell by 11%. The lack of robust historical recessionary performance data results in limited visibility as to how MLs will perform in the next recession. Fitch continues to use conservative assumptions in our rating case cash flow projections as it relates to the effects of economic volatility.

Although Fitch-rated MLs growth slowed in each of the past three years, this is to be expected, as newer facilities exit the fast growth ramp-up phase. Over the next year Fitch-rated MLs projects are projected to finish construction in California, Colorado, North Carolina and Texas, and portfolio-wide revenue growth may rise as the proportion of facilities in ramp-up increases. Fitch expects the growth of MLs to continue as they tackle congestion issues while simultaneously producing revenue streams that can be used to pay for roadway maintenance and possibly other capital projects.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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