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S&P Credit FAQ: A Review Of Transportation Criteria: Liquidity And Debt Service Coverage In Light Of COVID-19

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Frequently Asked Questions

The virtual collapse of demand levels for many transportation infrastructure providers as a result of the COVID-19 pandemic is focusing attention on their liquidity, reserves, financial flexibility, and projected financial performance. As we evaluate the magnitude and impact of these severe volume declines on issuers in the context of a global recession, key metrics outlined in our criteria and other financial flexibility measures provide a critical, forward-looking view of how long the enterprise can operate while meeting near- and longer-term financial obligations. Importantly, understanding these measures of liquidity, including how we view unrestricted versus restricted assets, days' cash on hand, cash burn rates, and debt service coverage (DSC), as well other adjustments, provides the market with uniform benchmarks to allow comparative analysis at a time when management teams are proactively using all available tools to meet their obligations.

In this commentary, we review these key metrics and their significance to our assessment of overall credit quality, addressing how external support or liquidity injections, such as federal grants from the CARES Act made available to airport and transit operators, will be incorporated into our analysis, and examining how other cash flow analysis can be useful in the coming months.

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