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Fitch: Fed Liquidity Program Benefits Muni but Limited Transportation Participation Expected

Fitch Ratings-New York-22 June 2020: The recently authorized federal lending facility, aimed for eligible municipal issuers in order to bring stabilization as COVID-19, which has unsettled the capital markets, is not likely to find broad participation from transportation revenue enterprises although the coronavirus pandemic has significantly impaired operating volumes and revenues over the past several months, according to Fitch Ratings. Most public transportation authorities are facing financial challenges, but recent Fitch reviews show most entities will have sufficient liquidity and access to capital from other sources to manage funding needs through the year. Consideration to draw on this lending facility may be more beneficial to smaller transportation agencies or those with more exposures to operating deficits, such as transit systems.

The Municipal Liquidity Facility (MLF) was launched in April 2020 under Section 13(3) of the Federal Reserve Act with loans to be originated through a special purpose vehicle (SPV). This lending program can provide an alternative approach to address funding needs for the benefit of states and local governments as well as related revenue bond issuers. This program allows for up to a total of $500 billion in eligible note purchases through the end of calendar year 2020, with borrower repayment on such loans extending as long as 36 months. The state of Illinois recently completed the first MLF transaction, a $1.2 billion borrowing to be repaid within one year. The eligibility for revenue bond issuers have been expanded since initiation to include transportation revenue entities including airports.

Fitch does not anticipate a sizable inflow of loan applications from public transportation issuers such as airports, ports and toll roads, particularly those with solid credit characteristics. Still, large agencies with higher credit quality, could find a need for the MLF sourced loan to the extent they have businesses with significant size and near-to medium term operational uncertainty (airports and/or transit). Those agencies having large operating and capital obligations that are difficult, or expensive to modify, may at least consider this liquidity to mitigate against this exposure and potential market disruption risks.

MLF has established pricing terms with linkage to rating levels. Recent market data indicate the MLF set credit spreads would make loan costs materially higher than the more traditional public or private markets for borrowings. Furthermore, limitations to the total number of eligible borrowers set for each state and governor approvals in the selection process could dampen the interest from potential applicants.

Airports have experienced the greatest level of volume reductions from the coronavirus pandemic with passenger declines exceeding 90% during the initial weeks when air travel was interrupted. However, commercial airports as a sector have already received $10 billion in authorized assistance in the form of grants under the $2 trillion CARES Act stimulus package. In Fitch’s view, these funds, together with existing airport financial resources, should be able defray operating costs and debt service payments for at least one year even if recovery remains tepid in the upcoming months. Ports and toll roads agencies have experienced negative volume and revenue shifts resulting from the

pandemic but at a far lesser magnitude compared to airports. While no grant funding assistance has been authorized for these sectors, many of the agencies with debt borrowings have sufficient coverage or liquidity cushions on hand to cover costs for the near term.

With median ratings in the 'A' category, Fitch expects a vast majority of public transportation enterprises across airports, ports and toll roads to weather the coronavirus-caused stresses and anticipate a limited number of rating actions in the near term. A combination of robust coverage cushion and ample levels of cash reserves should allow these entities to manage the funding needs. On the other hand, transit systems will have more acute challenges to cover their own operating budgets as fare box receipts typically do not bring enough cash flow on their own to support ongoing costs. Government taxes and other subsidies are common tools to defray costs.

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