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Fitch: Coronavirus-Induced Travel Stoppage Clouds U.S. Transportation

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Fitch Ratings-Austin-14 July 2020: With non-essential travel largely ground to a halt due to the coronavirus, the ability of transportation segments to maintain revenues and passenger traffic will be an increasing challenge according to a new report that addresses questions Fitch Ratings has received from investors over the health of transportation infrastructure as fallout from the pandemic continues.

The investor questions include a query about U.S. airports' ability to fund capital projects, which will face a stiff test in the near term because pay-go funding liquidity is under strain against the volatile capital markets. 'Federal monies that airports can use for any lawful purpose and existing funds held in unrestricted reserves and construction accounts will soften the blow somewhat,' said Senior Director Seth Lehman. 'That said, obtaining broad airline support will be more difficult until the aviation environment recovers.'

As a result, airports are likely to either defer expansionary projects or scale back less essential projects altogether to offset cash flow weakness. Examples include capital projects at LAX (Midfield Concourse), New York's LaGuardia Airport (Central Terminal) and Kansas City, all of which are likely to continue given the funding was covered from previous bond issues, which is leading investors to inquire as to what happens to completion prospects once the funding well runs dry for these projects.

The CDC's current "no sail order" has put a lid on cruise travel through at least Sept. 15 and will put substantial pressure on cruise operator passenger levels through at least the end of the third quarter. As a result, investors are asking how this will affect cruise ports over time. 'Ports are shielded to some extent thanks to minimum annual guarantees with cruise operators, though most cruise ports were operating well above their minimum annual guarantees level in recent years,' said Lehman. 'Cruise lines at some ports invoked force majeure clauses under their contracts due to the coronavirus, which may provide cruise lines relief from meeting their minimum annual guarantee levels during their contract year if cruise operations are suspended for a long period.'

This also brings into question how traffic for nearby toll roads will be affected if cruise demand continues to hover at around 50%. 'Lower cruise demand will undoubtedly have an effect, but it is doubtful it would be sufficient in isolation to lead to negative rating actions for toll roads,' said Lehman. 'Regions that serve large numbers of cruise passengers like Miami and Fort Lauderdale have a significant tourism component to their economies, but tend to be midsize to large and growing with increasingly diverse economic activity.'

Fitch will continue to maintain an active dialogue with investors as the fallout of the pandemic plays out for transportation infrastructure over time. 'What Investors Want to Know: U.S. Transportation

and the Coronavirus Crisis' is available at 'www.fitchratings.com'.

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