Stir-Crazy Americans Hit Road, Spurring Muni Toll-Bond Demand.

- **Issuance for tollways, bridges and tunnels highest since 2017**
- **Tollways benefit from rebound of economy, travelers: Vanguard**

Americans eager to get out of the house are jumping in their cars for trips near and far, spurring a faster-than-expected rebound in traffic and investor demand for bonds funding municipal toll roads, bridges and tunnels.

Many non-profit toll operators are seeing traffic at around 90% to 100% of 2019 activity, after a shallower drop and stronger rebound than anticipated, said S&P Global Ratings Analyst Scott Shad. While volume overall won't hit 2019 rates this year, it will probably recover to pre-pandemic levels in 2022 and grow 5% in 2023 given a pickup in the economy and pent-up consumer demand, Shad said.

Such metrics are drawing the attention of investors who are trying to find higher yields in muni bonds at a time when returns are low, and when record federal aid has given a boost to nearly all issuers. Debt issuance for state and local tollways, bridges and tunnels has reached about $9.77 billion, the highest for the year-to-date period since 2017, according to data compiled by Bloomberg.

The combination of aid and market technicals has made it "really hard to distinguish the good from the bad," said Mathew Kiselak, head of long term municipal portfolio management for Vanguard, which holds $222 billion in muni assets. Toll roads stand out as attractive investments, he said.

"It's really looking at sub-sectors that benefit from an improving economy," Kiselak said in an interview. "We love toll roads."

A North Texas Tollway System bond that matures in 2048, among the debt held in funds that Kiselak manages, has seen a 55 basis point premium to benchmark securities in January fall to a discount of 36 basis points earlier this month. The spread above the benchmark for debt issued by the Pennsylvania Turnpike Commission that matures in 2027, another Vanguard holding, has shrunk to 23 basis points this month from 49 basis points in May.

Part of the sector's strength stems from Americans choosing to hit the road rather than flying, Kiselak said. The total number of vehicle miles traveled in the U.S. is close to pre-pandemic levels based on a weekly U.S. Department of Transportation report that compares current interstate highway traffic to the same week in 2019.

Separating the mileage data between commercial and passenger shows that truck volume helped kick off the rebound in mid-2020 when shoppers jumped online for purchases and the delivery sector surged. Passenger traffic began to gain more in the new year and is now close to pre-pandemic levels, according to the government data.

Weekly vehicle miles traveled are recovering faster than expected

Better still, often issuers can increase tolls with inflation, giving investors some benefit from recent rising price levels. Increases to toll rates and other “prudent” management steps have kept credit stable and meant no downgrades in 2020 or 2021 across 55 toll road operators rated by S&P. Debt coverage “remained strong despite declines in operating revenues” in 2020, according to S&P.

This sector has “proven its worth,” Ed Paulinski, a portfolio manager and head of muni separately managed accounts at Goldman Sachs Asset Management, said in an interview.

“A lot of the transportation-related sectors actually survived the downturn pretty well and toll roads was certainly one them,” Paulinski said. “The revenue has been in line or in some cases better than pre-Covid. I think that in combination with spreads is hard to find.”

Bloomberg Markets

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September 27, 2021, 10:45 AM PDT

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