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Notorious Beltway Bottleneck Gets Fix in Muni-Financed Project.

- **Virginia agency selling $1.1 billion of debt this week**
- **Plan extends high-occupancy toll lanes by 2 miles on I-495**

A Virginia public-finance agency plans to borrow about $1.1 billion in the municipal bond market to extend high-occupancy toll lanes to ease gridlock in one of the capital area's most notorious Beltway bottlenecks.

The Virginia Small Business Financing Authority is scheduled to issue the debt Thursday as part of a plan to extend the lanes on I-495 by about 2 miles (3.2 kilometers) near the Maryland border northwest of Washington, roadshow documents show.

The bond issue comes as traffic is surging back toward pre-pandemic levels, and for some portfolio managers it's more than just an investment opportunity.

"I experience this, not daily, luckily, but all the time," said Carlton Davis, a vice president at Chevy Chase Trust in Bethesda, Maryland, who lives in the area and is considering buying a taxable portion of the sale. "It's absolutely terrible, it can be 2 p.m. on a Saturday and it's an absolute parking lot."

U.S. toll roads saw traffic plummet early in the pandemic, but have since emerged as one of the more resilient transportation sectors. The routes may benefit now from lasting societal changes as commuters return, such as increasing leisure travel and an aversion to carpooling.

Average U.S. toll-road traffic for the third quarter of 2021 was 95% of 2019 levels, according to Fitch Ratings.

"The good toll roads were able to weather the storm pretty easily," Chevy Chase Trust's Davis said.

Davis said the relative stability of commercial travel helped keep systems like the Pennsylvania and New Jersey Turnpikes humming. He said he likes the sector because of relatively low maintenance costs compared to public transit, and the importance of toll roads in places with few alternatives.

"A lot of big toll systems in the South saw a decline in revenue and ridership, but they're very essential to the heartbeat of that economic area," Davis said.

For high-occupancy lanes on I-495, toll traffic in April through September 2021 was 73% above 2020 levels, but still 32% below 2019 levels for the same period, according to bond documents.

March Launch

Work on the Virginia project is forecast to begin next month with completion expected in May 2026, bond documents say. The project is being facilitated through an agreement between the Virginia Department of Transportation and a private firm owned in part by the Transurban Group, an Australian toll-road manager, developer and operator.

The debt will be sold in two series: about $304 million of senior lien revenue and refunding bonds, and around $841 million of subordinate lien revenue refunding notes that are federally taxable.

The bonds are rated Baa1 by Moody's Investors Service — three levels above junk — with a stable outlook. The firm cited "well mitigated" construction risk and a favorable view of Transurban, as well as risk for the project as traffic on the tollway recovers from the pandemic.

The recovery across transportation sectors has been uneven. Barclays Plc strategists are advising clients to avoid bonds issued by public-transit agencies amid weak ridership and lingering pandemic uncertainty. But they said they like some toll-road debt.

"High-quality toll roads have stabilized, although with little upside for spread opportunity," they wrote in a report last week. "We like credit quality of these credits, as well as their recovery prospects, although near-term taxable muni spreads might be following corporate spreads wider."

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