Outlook For U.S. Not-For-Profit Transportation Infrastructure: Back To The Future For Most Operators, While Mass Transit Minds The Gap

January 10, 2024

Sector View: Stable Except For Mass Transit, Which Is Negative

S&P Global Ratings' view of business conditions and credit quality across the U.S. not-for-profit transportation infrastructure sector for 2024 is stable, as most asset class operators fully return to historical activity levels and planning for the future. Our view applies to rated airports (and related special facilities), toll roads, maritime ports, parking operators, and all federal transportation grant-secured entities. Our negative sector view for mass transit is unchanged, reflecting financial pressures facing many transit providers with a historical reliance on fare revenues as they look to plug operating fund gaps as federal assistance runs out.

PRIMARY CREDIT ANALYST

Kurt E Forsgren
Boston
+ 1 (617) 530 8308
kurt.forsgren
@spglobal.com

SECONDARY CONTACTS

Sussan S Corson
New York
+ 1 (212) 438 2014
sussan.corson
@spglobal.com

Joseph J Pezzimenti
New York
+ 1 (212) 438 2038
joseph.pezzimenti
@spglobal.com

Kevin R Archer
San Francisco
+ 1 (415) 3715031
Kevin.Archer
@spglobal.com

Kenneth P Biddison
Englewood
+ 1 (303) 721 4321
kenneth.biddison
@spglobal.com

Scott Shad
Englewood
(1) 303-721-4941
scott.shad
@spglobal.com

See complete contact list at end of article.

What we're watching--Airport, port, toll, transit, parking, and grant-secured

Economic outlook

U.S. consumer spending still carries the day but a significant slowdown could dampen transportation activity levels and consumption.

Capital spending adjustments

Organizations return to planning and funding large capital needs, but now higher program and financing costs could slow development and increase overall debt levels.

Return to pre-pandemic demand levels with transit remaining outlier

Economic trends, consumption, trade, and asset class-specific factors should result in most transportation operators returning to historical growth rates.

Labor driving expense and capital program growth

Labor availability, combined with wage and benefit increases, is driving growth in operating expenditures and capital programs.

Historic infrastructure investment

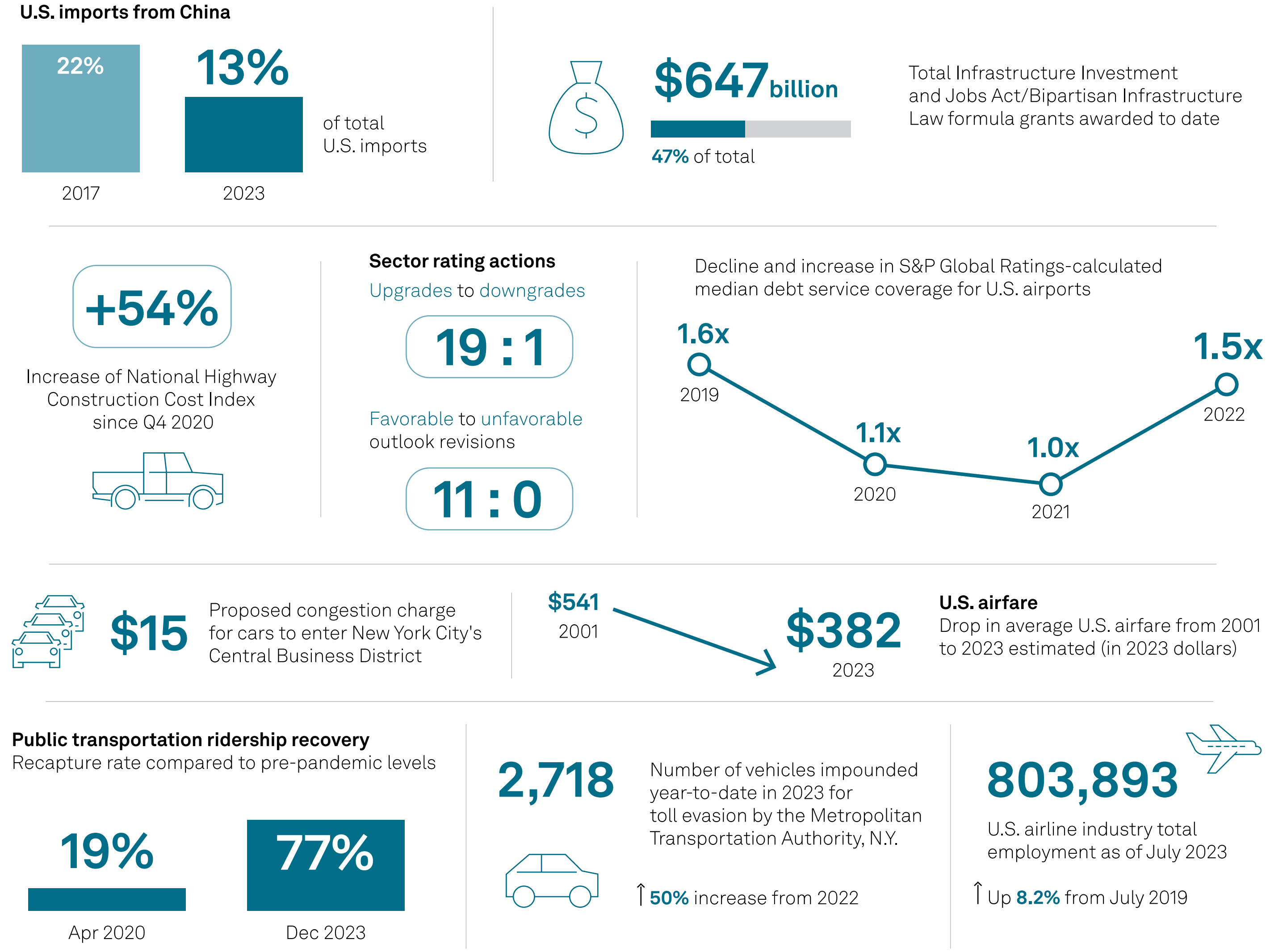
Billions of dollars in formula funding and competitive grants from the infrastructure investment and Jobs Act/ Bipartisan Infrastructure Law continues to work its way into the economy from 25 federal agencies.

Risk management strategies

Strategies that prioritize health and safety, minimize physical and cyber security risks, and prepare for the transportation industry's decarbonization initiatives.

Chart 1

U.S. not-for-profit transportation asset classes: By the numbers



Sources: American Public Transportation Assn.; CBS News; The Brookings Institution; Metropolitan Transportation Authority; Transport Topics; U.S. Department of Transportation, Bureau of Transportation Statistics; Wall Street Journal.

What's Behind Our Sector View

Return to baseline demand levels across transportation asset classes--except transit

In our opinion, 2023 was the bounce-back year when most activity measures across transportation providers approached, or, in some instances, exceeded pre-pandemic levels (see Appendix, charts 10-13). We view 2024 as a year of normalization and return to more typical, GDP-linked baseline growth rates.

U.S. airports reached new passenger highs during holiday periods in early 2023; the Transportation Security Administration reported systemwide daily volumes surpassed 2019's in January and February 2023 before more regularly exceeding previous peaks during the summer months of 2023. Toll operators, which experienced the fastest recovery in demand, are back to historical operations while port operators saw a 9% decline in container volumes from 2022 historical highs. For many parking operators, particularly those serving downtown areas or linked to commuter activity, demand has stabilized but is still lagging 2019 operational highs, with rate increases supporting revenue growth.

Looking ahead to 2024, the outlier in this back-to-normal mobility story is U.S. mass transit, which, through December 2023 is at 77% of pre-pandemic levels with wide variances between U.S. regions and modes of transit. Heavy regional commuter rail-only systems still face lower ridership due to remote work trends while bus and subway systems serving cities and metropolitan areas have performed better.

2024: Back to business-as-usual and more typical financial metrics

Our stable sector view for 2024 is also supported by a return to more typical business-as-usual financial equilibrium across transportation asset classes given activity levels, the spend-down of federal pandemic financial assistance by airport and transit operators, and a combination of management actions such as restructuring debt during the pandemic and raising rates, fees, tolls, and other charges in the face of inflationary expense growth, including higher labor costs.

We first observed this trend in our fiscal 2022 data, which demonstrated 24% median growth in operating revenue across all transportation infrastructure classes, driving a rebound in S&P Global Ratings-calculated median coverage (to 1.8x in 2022 from 1.4x in 2021) and improved liquidity measured by days' cash on hand (to 648 from 607 in 2021) (see table 1). Year-over-year growth rates will slow but remain positive once fiscal 2023 median results are in and continue into 2024, with stable demand measures supporting generally strong financial metrics.

Table 1

S&P Global Ratings' transportation infrastructure enterprise--2022 median financial metrics

	Airports	Ports	Tolls	Public transit	Parking
Debt service coverage (x)*	1.5	3.2	1.8	2.0	1.1
Debt to net revenue (x)	9.5	4.1	6.8	2.6	7.9
Unrestricted days' cash on hand (days)	652	815	978	482	169
Unrestricted reserves to debt (%)	25.2	71.6	14.3	74.4	16.1

*Calculation excludes the use of federal relief aid to the extent received and applied. For financial metric ranges in our criteria, please see table 2 in the Appendix. Source: S&P Global Ratings.

For 2024, inflation-related expense growth, a ramp-up in annual capital improvement spending, or weaker-than-forecast U.S. economic growth could lead to weaker financial results--including debt service coverage (DSC)--but likely not enough to affect credit quality. Specifically:

- Airports: Any potential drag on air travel demand caused by inflation and economic weakness will be relatively benign and short-lived, in our view, as remaining federal operating assistance is exhausted and management teams navigate through any slowing demand with improved balance sheets, cost recovery arrangements, and activity-based revenue performance. Median DSC in 2024 could dip below the 1.5x that we observed in 2022, with rising annual debt service.

- Toll roads and bridges: We expect to see stable performance, with steady growth in vehicle miles traveled (VMTs) in 2024 and a full return of metro region congestion, CPI-adjusted toll increases continuing to bolster transactions, and revenue growth on tolled roads, bridges, and managed lanes.
- Ports: 2024 will see a swing back to growth in maritime cargo and container volume as recession fears abate, with little change in port operator financial metrics; these are generally the strongest of the transportation asset classes as measured by coverage (median greater than 3.0x in fiscal 2022). This is despite ports' exposure and susceptibility to swings in commodity prices affecting cargo volumes, often-rapid changes in the business cycle and global economy, and shifting trade policies over time. We expect ports with cruise operations will see continued growth.
- Parking: Utilization will continue to improve in 2024 and remain by its very nature highly dependent on local economic conditions, employment and retail trends, events and entertainment venues, and behavioral patterns of users as well as largely site-specific characteristics.
- Grant anticipation revenue vehicle (GARVEEs): With most ratings in the 'AA' category, we anticipate sustained stable credit performance, reflecting reliable funding and continued strong support for transportation infrastructure investment across all levels of government. Our U.S. sovereign rating (AA+/Stable/A-1+) is linked to both stand-alone GARVEE ratings and those backstopped GARVEE ratings that benefit from an additional pledged security such as state gas taxes.
- Public mass transit: Despite lower ridership, transit providers for which tax revenue makes up a large majority of their operating revenue should maintain favorable metrics, including debt service coverage and debt-to-net revenue, in 2024, albeit at lower levels as sales tax growth slows. We still expect public transit ridership will recover to only about 85% of pre-pandemic levels by 2026 under our base case and 80% under our downside case. However, ridership is increasingly becoming de-linked from the revenues and financial performance of transit operators as non-operating tax revenues become a higher share of the total. For 'AAA' and 'AA' rated mass transit operators, tax revenue generally makes up more than 60% of total revenue, providing credit stability and in some cases, more than offsetting declines in farebox revenue. As noted, headwinds are confronting many with a historical reliance on fare revenues.

Economic outlook--cooling but not breaking--will support stable performance

Our 2024 mostly stable sector view is also supported by S&P Global Ratings' U.S. economic outlook, as overall transportation industry performance measures and infrastructure usage are more broadly linked to economic activity that spurs travel, spending, and demand for goods and services. In 2023, the U.S. economy outperformed expectations and was on track for 2.6% growth on a fourth-quarter-over-fourth-quarter basis, which translates to 2.4% annual average growth--just about the average of the previous expansion period (2010-2019).

S&P Global Ratings now expects the U.S. economy will expand 1.5% in 2024 on an annual average basis (up from 1.3% in the September forecast) and 1.4% in 2025 (unchanged from the September forecast), before converging to long-term sustainable growth of 1.8% in 2026. We expect to see inflationary impacts across the sector related to labor, materials, and capital spending with a corresponding increase in operations and maintenance expenses. However, we believe transportation infrastructure issuers will largely manage without disruption to credit quality. (See "Economic Research: Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking," published Nov. 27, 2023, on RatingsDirect.)

Sector Top Trends

Capital spending adjustments

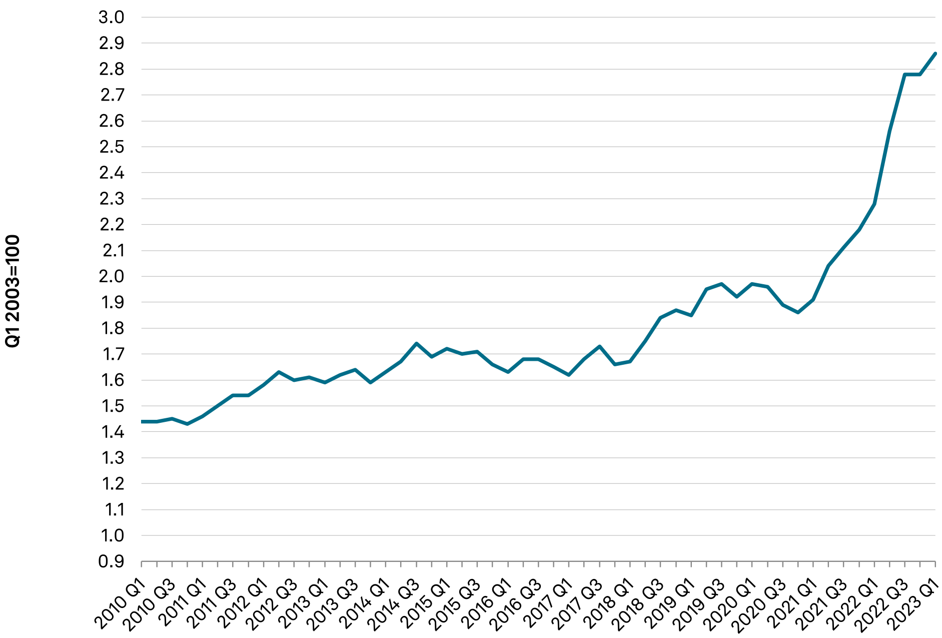
In 2023, capital spending to maintain assets or improve long-term capacity returned and is now back in full force, tempered by higher interest rates and inflated construction costs against the backdrop of ongoing significant federal infrastructure investment across many sectors, including transportation. The U.S. Department of Transportation alone will allocate infrastructure funding of approximately $131 billion in 2024, $134 billion in 2025, and $136 billion in 2026. How management teams implement these capital programs and navigate higher costs could influence credit quality in 2024.

The highest construction cost inflation seen in decades, along with rising labor costs, will continue to weigh on project budgets and timelines and could result in higher debt burdens. Eno Center for Transportation reports that the 2023 annualized National Highway Construction Cost Index, maintained by the Federal Highway Administration, is on pace for an annual increase of 10.8% with overall construction costs up 53.7% since December 2020 (see chart 2). The massive federal infrastructure investment is likely to keep input and material prices elevated in many markets over the medium term. Furthermore, the Infrastructure Investment and Jobs Act (IIJA)/Bipartisan Infrastructure Law (BIL) requires that all infrastructure projects funded by related federal grants include manufactured end products that are made in the U.S. and the component costs must be greater than 55% of the total costs, which can also pressure total project cost increases.

Chart 2

National Highway Construction Cost Index

First-quarter 2010 to first-quarter 2023



Source: U.S. Department of Transportation, Federal Highway Administration.

Many issuers manage higher-than-previously forecast construction costs by slowing debt issuance and deferring project elements until they can commence with better materials and supply availability; or potentially more favorable market conditions arrive. Assuming all other key credit fundamentals are unchanged, we believe credit quality can be maintained if higher debt burdens can be supported by revenue enhancements we consider commensurate and sustainable.

Return to historical activity growth rates

We anticipate 2024 activity measures for most transportation infrastructure operators will return to pre-pandemic growth rates, fueled by economic growth, trade trends, and asset class-specific factors. Still, the hangover effects of the pandemic on air travel, shipping, transit ridership, etc. might delay determining how, if at all, long-term growth trendlines have changed. Will this time period, with its changes to work patterns, changes in supply chains, and future mobility associated with the energy transition (such as electric vehicles, decarbonization initiatives, etc.), serve as an inflection point, or should forecasters continue to look to historical trends and relationships of activity to GDP to derive future growth rates?

Labor costs are driving expense and capital program growth

The higher cost of labor, as well as its availability (or lack thereof), is a cause of operating cost increases and more expensive capital programs. Our median increase in operating expenses across all transportation infrastructure asset classes was 10% in fiscal 2022 and we expect this will trend higher than general inflation in 2023 and 2024. Some transit operators have signed three-to-five-year wage increase agreements ranging between 3.5% and 18% with new incentives to attract and retain workers.

However, higher labor costs aren't just a transportation industry phenomenon but a broad-based trend with downstream implications for infrastructure providers, as shortages of highly skilled tradespeople cause construction delays and cost increases.

Risk mitigation strategies remain crucial to future performance

Risk mitigation strategies that prioritize health and safety of employees and customers, minimize exposures to physical and cyber security breaches, and prepare for the collective transportation industry's efforts to decarbonize are becoming increasingly important to proactive management teams. With supportive governance and policy structures, many are developing more sophisticated reporting mechanisms and key performance indicators that demonstrate active administration of--and progress toward--asset resiliency and energy transition requirements that mitigate long-term risk. In addition to asset hardening and other upgrades, operators will increasingly be required to improve connectivity to their regional electrical grid to accommodate increasing load and reliability requirements of electric vehicles of travelers, tenants, and employees.

Other asset class-specific trends

Airports and related special facilities. Currently, 78% of airport ratings are at their pre-pandemic levels, with 18% higher and 4% lower. For airport-related special facilities (i.e. consolidated rental facilities), 50% are rated at their pre-pandemic levels with 33% rated higher and 17% rated lower. Most airport operators have exhausted their federal pandemic operating assistance and have returned to business-as-usual rate-setting. Higher passenger volumes and inflation-related growth in concession revenues are fueling top-line growth, but rising operating expenses and debt service increases for those airports that restructured debt will hamper 2024 financial performance. The trend of air travel demand will be a key credit factor for rated airports, as continued growth will support the multitude of rising costs whereas, conversely, weakening or stagnating demand will test the willingness and ability of management teams to adjust revenue, expenses, and capital spending to maintain financial margins commensurate with credit quality (see "U.S. Transportation Infrastructure Airport Update: The Industry Is Cleared For Takeoff, With Cost Pressures On The Horizon," Nov. 7, 2023).

Toll roads and bridges. We expect U.S. not-for-profit toll road and bridge ratings will be stable, with revenue growth accompanied by steady operations and maintenance expenses, as well as capital spending for capacity expansions. Issuers with tolling policies linked to the CPI or other inflation-linked measures might report higher revenue growth in 2024, although some could defer allowable rate increases for fear of public opposition, to maintain toll affordability, or because of previously implemented toll increases in recent years. As toll-related revenues increase from enforcement, fines, late fees, and penalties, there is often corresponding pressure from policymakers in some states to place limits or caps on these enforcement amounts, which could lead to higher toll rates to make up the difference (see "U.S. Transportation Infrastructure Toll Sector Report Card: Resilient Demand And Higher Tolls Underpin Credit Strength," Aug. 17, 2023).

Ports. U.S. ports will continue to ride the waves of economic trends, trade policy, geopolitical events, supply chain developments, and labor issues that affect volumes on the macro level and financial performance, depending on each port's commodity mix and operating profile. Port congestion, supply chain issues, and logistics delays are gone with the normalization of trade patterns, although continuing conflict in the Middle East might disrupt shipping through the Suez Canal. According to S&P Global Market Intelligence, 2023 TEU volumes at the largest U.S. ports fell 9%, although it expects growth of approximately 3.5% in 2024 as ports return to 2019 trend growth rates. We expect port operator performance will be more predictable in 2024 and thereafter as a result.

Grant-secured (GARVEE). IIJA/BIL funding in federal fiscal 2022 totaled $58.2 billion for the Federal Aid Highway Program and $13.4 billion for transit formula grant programs, which flow through to states, resulting in very strong maximum annual debt service coverage that we do not expect will materially change. The IIJA/BIL did not, however, address the projected deficit in the Highway Trust Fund and we assume transfers from the U.S. Treasury are likely beginning in 2026 (see "Reliable Funding Continues To Support Stable GARVEE Sector View Amid Stubborn Construction Cost Inflation," April 27, 2023).

Public mass transit. Our sector view for U.S. public mass transit operators remains negative because many large agencies still face difficulty caused by persistent lower ridership and the expected void left by the spend-down of $71.7 billion in pandemic-related federal aid. Ridership had started to drop several years before the pandemic; then it collapsed in March 2020. A few transit agencies have since received a combination of temporary relief and long-term tax support to plug the operating fund gap amid an ongoing policy debate at the state, regional, and local levels regarding how to support operating and capital requirements with sustainable tax and revenue models. Identifying such a model to meet operating and long-term capital needs remains an ongoing topic of debate, setting up key decisions in the coming months that will pit service levels against available resources for 2024 and beyond (see "U.S. Transportation Infrastructure Transit Update: End Of The Line Nears For Federal Assistance As Low Ridership Pressures Operators," Sept. 28, 2023).

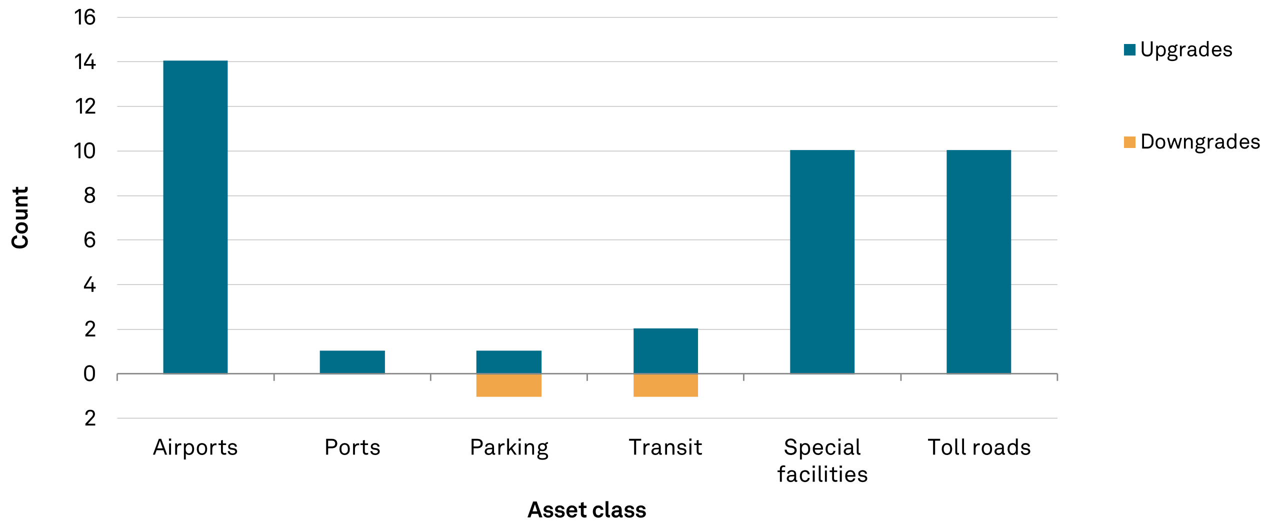
Ratings Performance

As of Jan. 1, 2024, S&P Global Ratings has ratings on 265 U.S. transportation infrastructure enterprises (TIEs) and ratings on 29 federal transportation grant-secured debt issues. The TIE sector median rating has risen to 'A+' from 'A' since Jan. 1, 2020, reflecting several factors including construction completion of large projects, demonstrated financial resilience through the pandemic, and improved financial metrics, often as a result of significant state, local, and federal support and favorable pledged tax revenue growth.

Overall in 2023, we raised 38 issue ratings and lowered two (see chart 3).

Chart 3

Not-for-profit transportation infrastructure: 2023 rating actions by asset class



As of Jan. 1, 2024. Source: S&P Global Ratings.

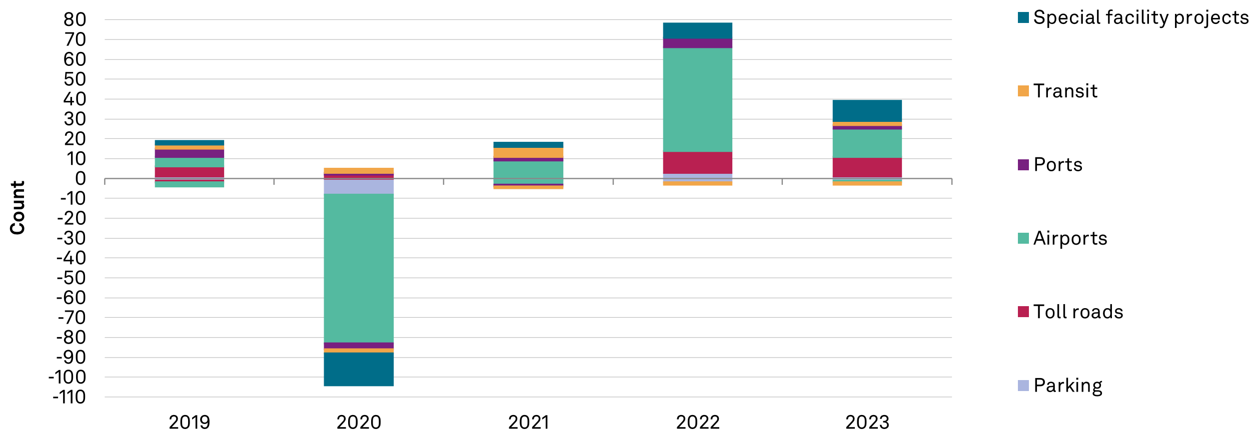
With the exception of 2020, rating trends across all asset classes have been largely positive (see chart 4). In 2023, the toll road asset class saw the most favorable outlook revisions, reflecting continued strong performance (see chart 5).

The prevalence of stable rating outlooks continues, with 92% of TIE ratings having a stable outlook, up from 84% at the beginning of 2023 (see charts 6 and 7). For historical context, on Jan. 1, 2020 (pre-pandemic), 90% of TIE ratings had a stable outlook. The median rating in 2023 was 'A+', up from 'A' in 2022.

Chart 8 provides the current and historical rating distribution by rating category for all transportation infrastructure and grant-secured issue ratings. Chart 9 illustrates the current distribution of outlooks by rating category.

Chart 4

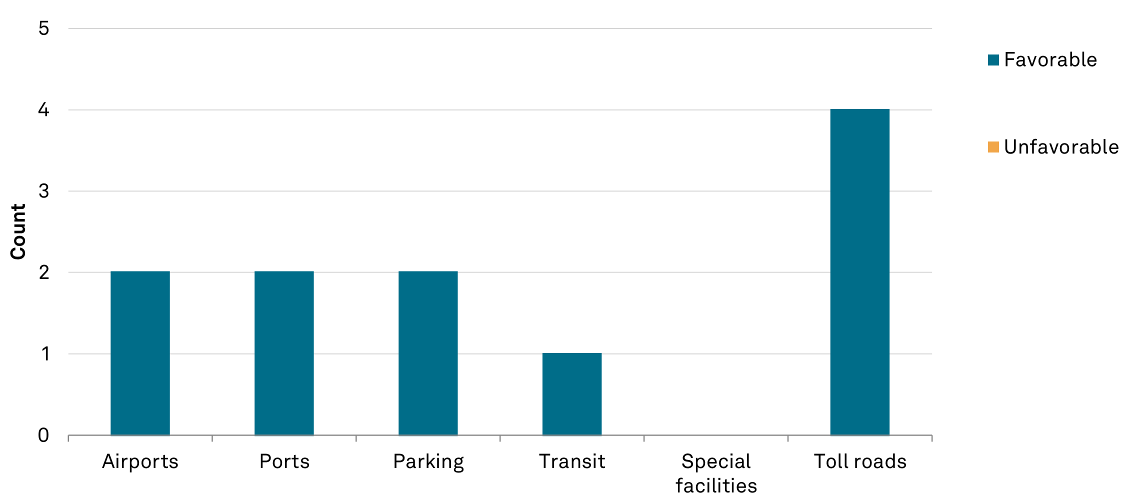
Not-for-profit transportation infrastructure rating changes by asset class, 2019-2023



Source: S&P Global Ratings.

Chart 5

Not-for-profit transportation infrastructure: 2023 outlook revisions by asset class



As of Jan. 1, 2024. Data is for all outlook changes unaccompanied by a rating change. Favorable outlook revisions include stable to positive and negative to stable. Unfavorable outlook revisions include positive to stable and stable to negative.
Source: S&P Global Ratings.

Chart 6

Outlook distribution as of Jan. 1, 2023

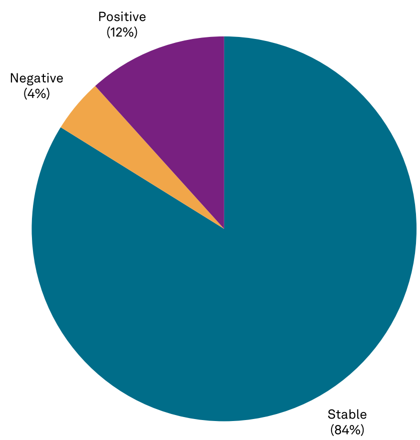


Chart 7

Outlook distribution as of Jan. 1, 2024

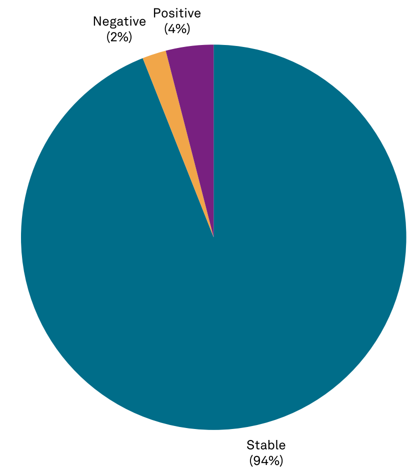
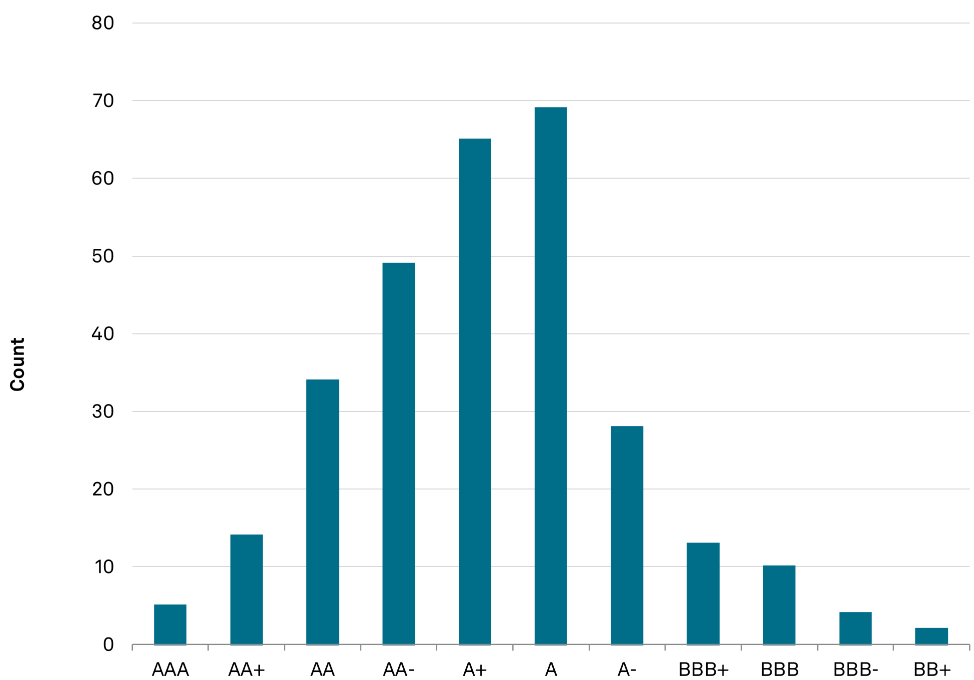


Chart 8

Not-for-profit transportation infrastructure and grant-secured ratings

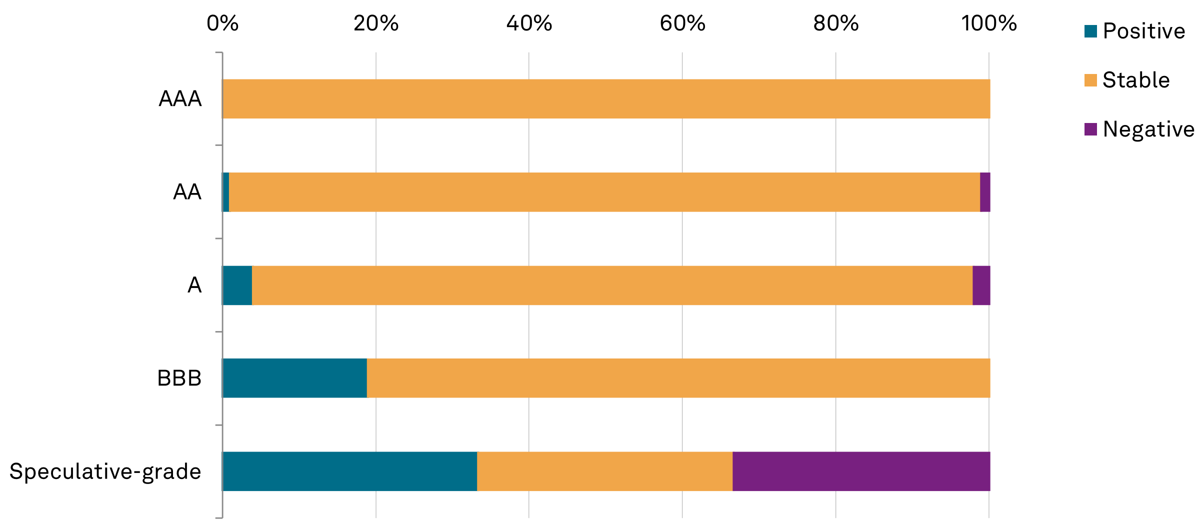
As of Jan. 1, 2024



Data excludes one 'CCC' rating.

Chart 9

Not-for-profit transportation infrastructure outlooks by rating category
As of Jan. 1, 2024

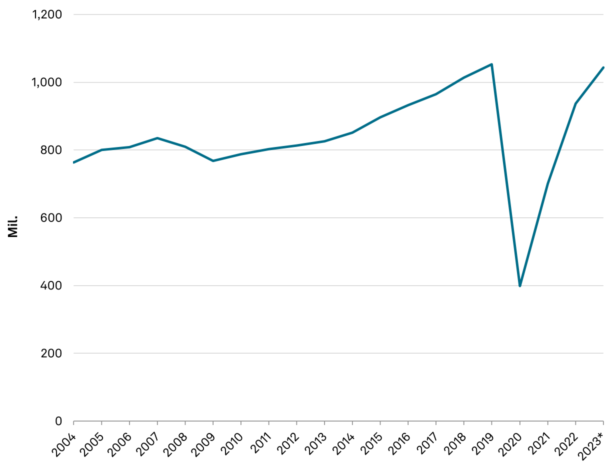


Appendix

Key transportation sector demand indicators

Chart 10

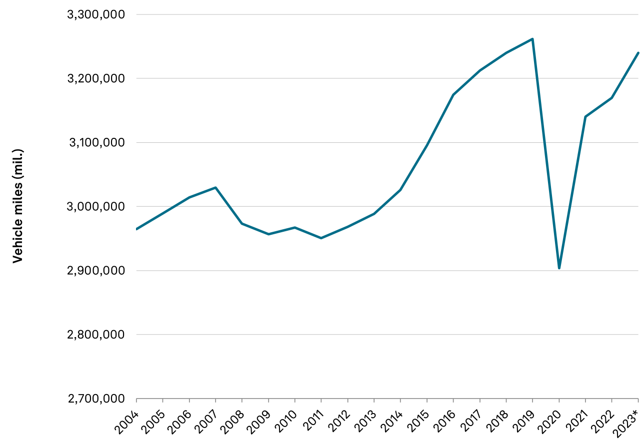
Total U.S. airport passenger volume (domestic and international)



*Data through August, annualized for full year. Source: Bureau of Transportation Statistics, S&P Global Ratings.

Chart 11

U.S. vehicle miles travelled

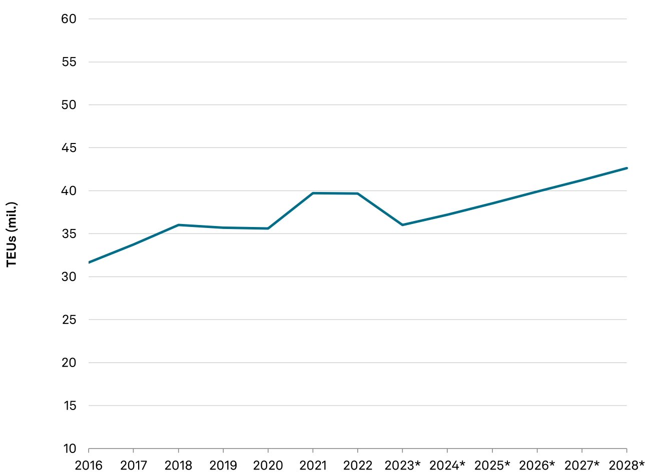


*Data through September 2023, annualized for full year.

Source: Office of Highway Policy Information, U.S. Federal Highway Administration.

Chart 12

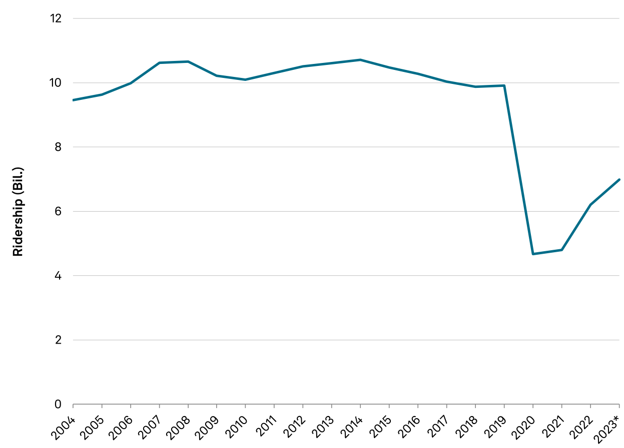
U.S. ports' annual activity



*Forecast. TEU--Twenty-foot equivalent units. Source: S&P Global Market Intelligence.

Chart 13

U.S. public transit ridership



*Data through September 2023, annualized for full year.

Source: Bureau of Transportation Statistics, S&P Global Ratings.

Table 2

S&P Global Ratings' transportation infrastructure enterprise criteria--financial metric ranges

	Extremely strong	Very strong	Strong	Adequate	Vulnerable	Highly vulnerable
Debt service coverage (x)	>4.75	4.75-3	3-1.25	1.25-1.1	1.1-1	<1
Debt to net revenue (x)	<5	5-10	10-15	15-20	20-30	>30
Unrestricted days' cash on hand	>800	800-400	400-250	250-120	120-60	<60
Unrestricted reserves to debt (%)	>85	85-50	50-20	20-7.5	7.5-3	<3

Source: S&P Global Ratings.

Related Research

Commentary

- Inflation Plus Strong Consumer Spending: The Perfect Formula For U.S. Sales Tax Bonds, Nov. 16, 2023
- U.S. Transportation Infrastructure Airport Update: The Industry Is Cleared For Takeoff, With Cost Pressures On The Horizon, Nov. 7, 2023
- U.S. Not-For-Profit Transportation Infrastructure 2022 Medians: Demand Recovery And Management Actions Powered A Financial Rebound, Oct. 18, 2023
- U.S. Transportation Infrastructure Transit Update: End Of The Line Nears For Federal Assistance As Low Ridership Pressures Operators, Sept. 28, 2023
- U.S. Highway User Tax Bond Report Card: Strong Coverage Drives Rating Resiliency, Sept. 28, 2023
- U.S. States Jump Start Electric Vehicle Charging Infrastructure, Sept. 21, 2023
- U.S. Transportation Infrastructure Toll Sector Report Card: Resilient Demand And Higher Tolls Underpin Credit Strength, Aug. 17, 2023
- Reliable Funding Continues To Support Stable GARVEE Sector View Amid Stubborn Construction Cost Inflation, April 27, 2023
- U.S. Transportation Infrastructure 2023 Activity Estimates Show Air Travel Likely To Fully Recover, With Transit Ridership Still Lagging, Jan. 9, 2023

Ratings lists

- U.S. And Canadian Airport And Special Facility Ratings And Outlook: Current List, Nov. 21, 2023
- Global Mass Transit Ratings And Outlooks: Current List And Recent Rating Actions, Sept. 28, 2023

- U.S. Transportation Infrastructure Toll Sector Report Card: Resilient Demand And Higher Tolls Underpin Credit Strength see table 1), Aug. 17, 2023
- U.S. And Canadian Public Port Facilities Ratings And Outlooks: Current List, Aug. 7, 2023

This report does not constitute a rating action.

Contact List

PRIMARY CREDIT ANALYST

Kurt E Forsgren
Boston
+ 1 (617) 530 8308
kurt.forsgren@spglobal.com

SECONDARY CONTACT

Sussan S Corson
New York
+ 1 (212) 438 2014
sussan.corson@spglobal.com

SECONDARY CONTACT

Joseph J Pezzimenti
New York
+ 1 (212) 438 2038
joseph.pezzimenti@spglobal.com

SECONDARY CONTACT

Kevin R Archer
San Francisco
+ 1 (415) 3715031
Kevin.Archer@spglobal.com

SECONDARY CONTACT

Kenneth P Biddison
Englewood
+ 1 (303) 721 4321
kenneth.biddison@spglobal.com

SECONDARY CONTACT

Scott Shad
Englewood
(1) 303-721-4941
scott.shad@spglobal.com

SECONDARY CONTACT

Kayla Smith
Englewood
+ 1 (303) 721 4450
kayla.smith@spglobal.com

SECONDARY CONTACT

Andrew J Stafford
New York
+ 212-438-1937
andrew.stafford1@spglobal.com

ADDITIONAL CONTACT

Ginger Wodele
New York
+1 2124387421
ginger.wodele@spglobal.com