

THE BOND BUYER

House appropriations bill supports transit finance

By

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A slight increase for proposed federal funding in transportation and infrastructure indicates the federal government's continued support of municipal bonds, analysts said, and continued support for public transit.

The House of Representatives passed a five-bill appropriations package Tuesday allocating \$86.6 billion to the Department of Transportation, \$167 million more than in 2019. The funds would be dispersed to Better Utilizing Investments to Leverage Development or BUILD grants, the Federal Highway Administration, Federal Transit Administration and port infrastructure among others.

Despite views on Capitol Hill that leaned towards taking financing away from public transit, the House bill would allocate \$13.5 billion for the Federal Transit Administration, which is a \$60 million increase from 2019 and \$1.1 billion above President Donald Trump's budget request.

"This level of appropriations is reflective of the support generally of public transit that's reflected in the House of Representatives," said Kurt Forsgren, managing director at S&P Global Ratings.

Forsgren also said federal support for public transportation and infrastructure is overall supportive of bonds.

"Federal funding tends to be the last plug for these projects, the last piece that they're looking for," Forsgren said. "That's likely to continue. The federal government likes to see local support for projects and provide the last bit of funding."

Slight increases in some of the infrastructure funds is positive, said Scott Zuchorski, North America head of transportation/ public-private partnerships in Global Infrastructure and Project Finance Group at Fitch Ratings.

However, the Highway Trust Fund will have a bigger impact and is a fundamental issue that needs to be addressed, Zuchorski said.

The HTF, set to expire in 2022, is a federal account fueled by federal gas and diesel fuel tax revenue. The majority of its spending is in the form of grants to state and local governments for their surface transportation projects. It's been in need of money for years since the federal gas tax has not been raised since 1993 and more fuel efficient and alternative fuel vehicles are requiring less fuel for the same miles traveled.



Scott Zuchorski, North America head of transportation/ public-private partnerships in Global Infrastructure and Project Finance Group at Fitch Ratings

Overall, the appropriations bill wouldn't alter prospects of bond financing, said Joung Lee, policy director at the American Association of State Highway And Transportation Officials. The HTF would provide more stable funding, lending itself to bond issuances.

"The solvency of the Highway Trust Fund in both the short and long term is probably a bigger question than the annual spending bills that essentially reaffirm what gets authorized under the five to six-year transportation bills," Lee said.

As the appropriations bill stands now, it reduces a key risk for next year that transit funding would get significantly cut, said Baye Larsen, Moody's analyst.

The continuation of grant programs will be important for projects looking to expand. Very few mass transit systems use the grants to support or repay financing. Though it will be issuer specific, some may choose to defer a project if they lose federal funding, Larsen said.

"On the other hand, if it's a project that they felt that they could fund on their own, maybe it would increase their reliance on their self-funded bond issuance," Larsen said. "You could see it go either way, but as a general rule, we don't think that this appropriations bill will change mass transit issuers' approach to their bonding calendars."

Raffi Hamparian, Los Angeles Metro senior director of federal affairs, said the appropriations bill was a "healthy signal" for bond financing.

Additional funding, along with policy provisions in the bill, creates better certainty of the federal commitment to transit investment, the American Public Transportation Association wrote in a statement.

"Funding certainty allows transit agencies to plan long-term investments, secure more favorable financing terms, and move projects forward," AAPA wrote.

The funding levels could become law with both Senate and White House approval.