“S&P’s Views on Infrastructure Credits: The Public Works – Can We Create Jobs Through Infrastructure Projects”

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Standard & Poor’s Ratings Services
Public Finance Sectors Within USPF Infrastructure

- Public Power
- Electric Cooperatives
- Gas Utilities
- Water and Sewer Utilities
- Solid Waste Authorities
- Municipal Pools (SRFs, Bond Banks, Econ. Dev. Pools, Infra. Pools)
- Airports (PFC bonds and special facility projects)
- Toll Roads and Bridges
- Ports
- Parking Systems
- Transit Agencies
- Federal Aid-Backed Projects (i.e., GARVEE or GAN transactions)
Credit Ratings: What They Are And Are Not

**Are:**

- Opinions about relative credit risk
- Opinion about ability & willingness of an issuer to meet financial obligations *in full & on time*
- Forward looking and regularly evolving
- Intended to be comparable across different sectors and regions

**Are not:**

- Investment advice
- Indications of market liquidity or price
- Guarantees of future credit risk
- Absolute measures of default probability
- Expected ultimate loss given default
## Rating Definitions

### Standard & Poor’s Ratings Scale

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<th><strong>Investment-Grade</strong></th>
<th><strong>Speculative-Grade</strong></th>
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- **Strongest**: AAA
- **Very Strong**: AA+, AA
- **Strong**: A+, A
- **Adequate**: BBB+, BBB
- **Least Speculative**: BB+, BB
- **Speculative**: B+, B
- **Highly Speculative**: CCC, CC
- **In Default**: D
Unpredictability in Washington & Economy for IFR

• Reauthorization risks, now pushed out, but will return
  – FAA spending reauthorization
  – Federal Gas Tax, with 14.1 cents of the 18.4 cent tax scheduled to sunset
  – MAP-21 reauthorization
• Prolonged minimal-to-slow economic growth
• Higher fuel costs
• Public power –
  – Cross State Air Pollution Rule (CSPAR)
  – Mercury Air Toxic Standard (MATS)
  – New Source Performance Standard (NSPS)
• Water and sewer utilities – ‘Epic’ drought in much of the country
• Sequestration & deficit reduction options (the “Fiscal Cliff”)
TRANSPORTATION
Typical Transportation Funding Options

• General Obligation Bonds (GOs)
  – Appropriation debt (Certificates of Participation - CoPs)

• Sales Tax Revenue Bonds

• Gas Tax Revenue Bonds

• Enterprise Revenue Bonds
  – Airports, Ports, Parking, Toll Roads, Transit Systems

• Federal Grant-Secured Obligations (GANs/GARVEEs)

• Public Private Partnerships (P3)
  – With or without TIFIA within the capital structure
Vehicle Miles Traveled

VMT (all roads) 12-Month Moving Average

Source: Federal Highway Administration
S&P’s View of Credit Issues – Toll Sector

- Recovering demand.
- Ability in current environment to increase tolls.
- Mission Creep.
- Accuracy of traffic and revenue forecasts.
- Competition.
S&P’s View: Public Private Partnerships (P3s)

- Corporate credit exposure
- Political Acceptance of P3s
  - Less political appetite for private concessions of existing assets
  - More appetite for new capacity construction projects.
- Off-taker risk
U.S. Transportation Infrastructure Finance and Innovation Act

- TIFIA loan repaid after senior debt in the cash waterfall
- Loan payments are either “mandatory” or “scheduled”
- “Bankruptcy related event” or BRE occurs if two consecutive mandatory payments missed or a bankruptcy filing
S&P’s View of Credit Issues – Grant Secured

- Federal surface transportation regular reauthorization risk
- Funding Risk
  - Replacement funding source for Highway Trust Fund (HTF)
  - Insufficient HTF balance potential
- Programmatic Rule Changes
- Timing payment concerns – Future Federal Government shut downs
Actions Observed to Mitigate General Transportation Risks:

1. Increasing rates and charges
2. Building up or conserving cash
3. Containing operating expenses
4. Postponing or reducing scope of capital projects
5. Renegotiating agreements to increase revenues and/or reduce costs
6. Refinancing debt for savings
7. Restructuring debt to simplify capital structure
8. Incentivizing new service
9. Finding new revenue sources
10. Closing underutilized facilities
Utilities
Climatology, Hydrology and Long-Term Water Supply

• In the U.S., most utilities make most of their revenues (often half or more) from Memorial Day to Labor Day

• Most common reason to miss budgeted DSC: temperate, rainy summertime

• Conversely, a hot, dry summertime can be great for net revenues, assuming adequacy of long-term water supply

• Standard & Poor’s has always factored water supply into the rating
  – New supplies can take decades to become operational
Hallmarks of Highly Rated Water Credits; Mostly Controllable

• Willingness to adjust rates in a timely manner, especially as connection fees have dried up
• Competitive rates, although in many cases hard to control
• Long-term financial planning
• Long-term capital planning
• Strategic planning
• Formal financial policies, including reserve policies, and historically adhering to such policies
• Prudent risk management policies and procedures
• Bond provisions (additional bonds test, rate covenant, reserve fund)
Hallmarks of Highly Rated Water Agencies; Mostly Uncontrollable

• Full ratemaking autonomy

• Strong employment trends and/or opportunities and low unemployment

• High income and wealth indicators (median household income)

• Diversity in one’s customer base (lack of concentration in revenues from leading 10 customers)

• Reliable and diverse water resource portfolio, although there is some room for control here

• Debt burden, although, an ability and willingness to raise rates and strong financial and strategic planning could, in many cases, ease debt needs

• Ample, diverse water supply

• Regulatory pressures
Conclusion
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