STANDARD & POOR'S
RATINGS SERVICES

"S&P's Views on Infrastructure Credits: The Public Works – Can We Create Jobs Through Infrastructure Projects"

NCSL 2012 Legislative Summit

August 8, 2012
Chicago, Illinois

Geoffrey E. Buswick
Managing Director/Lead Analytical Manager
U.S. Public Finance Infrastructure
Standard & Poor's Ratings Services

McGRAW-HILL

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)

STANDARD & POOR'S RATINGS SERVICES

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

STANDARD & POOR'S RATINGS SERVICES

Standard & Poor's Ratings Scale

Investment-Grade

AAA	Strongest
AA+, AA, AA-	Very Strong
A+, A, A-	Strong
BBB+, BBB, BBB-	Adequate

Speculative-Grade

BB+, BB, BB-	Least Speculative
B+, B, B-	Speculative
CCC, CC, C	Highly Speculative
D	In Default

STANDARD & POOR'S RATINGS SERVICES

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")

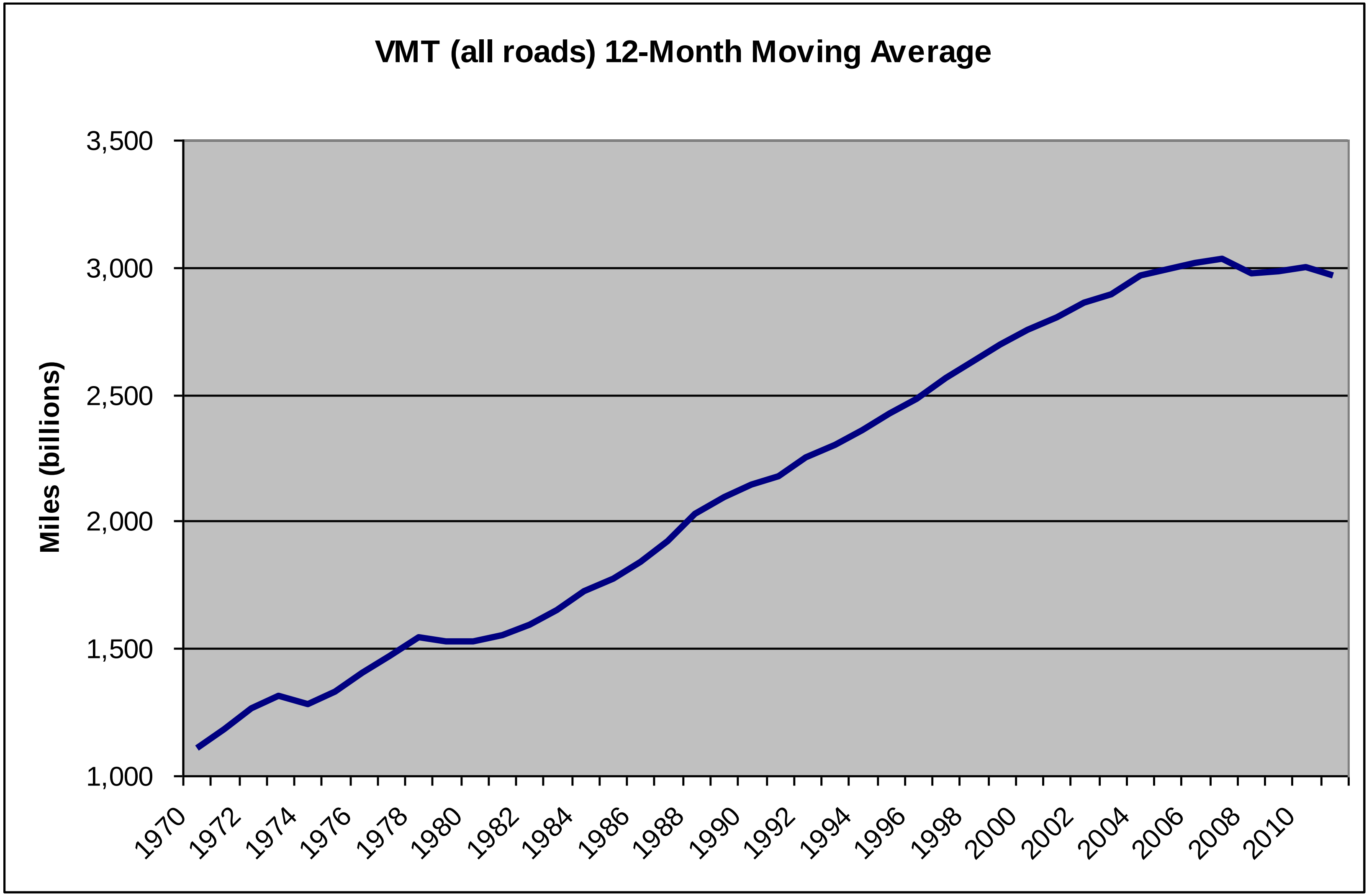
TRANSPORTATION

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

STANDARD & POOR'S RATINGS SERVICES

Vehicle Miles Traveled



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

STANDARD & POOR'S RATINGS SERVICES

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

STANDARD & POOR'S RATINGS SERVICES

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

STANDARD & POOR'S RATINGS SERVICES

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

STANDARD & POOR'S RATINGS SERVICES

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)

STANDARD & POOR'S RATINGS SERVICES

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

STANDARD & POOR'S
RATINGS SERVICES

Conclusion

Contact Info

Geoffrey E. Buswick, Managing Director/Lead Analytical Manager,
US Public Finance Infrastructure Group
(617) 530-8311
geoffrey_buswick@standardandpoors.com

Peter Murphy, Senior Director/Analytical Manager,
US Public Finance Infrastructure Group
(212) 438-2065
peter_murphy@standardandpoors.com

James Breeding, Director/Analytical Manager,
US Public Finance Infrastructure Group
(214) 871-1407
james_breeding@standardandpoors.com

STANDARD & POOR'S RATINGS SERVICES