



**STANDARD & POOR'S
RATINGS SERVICES**

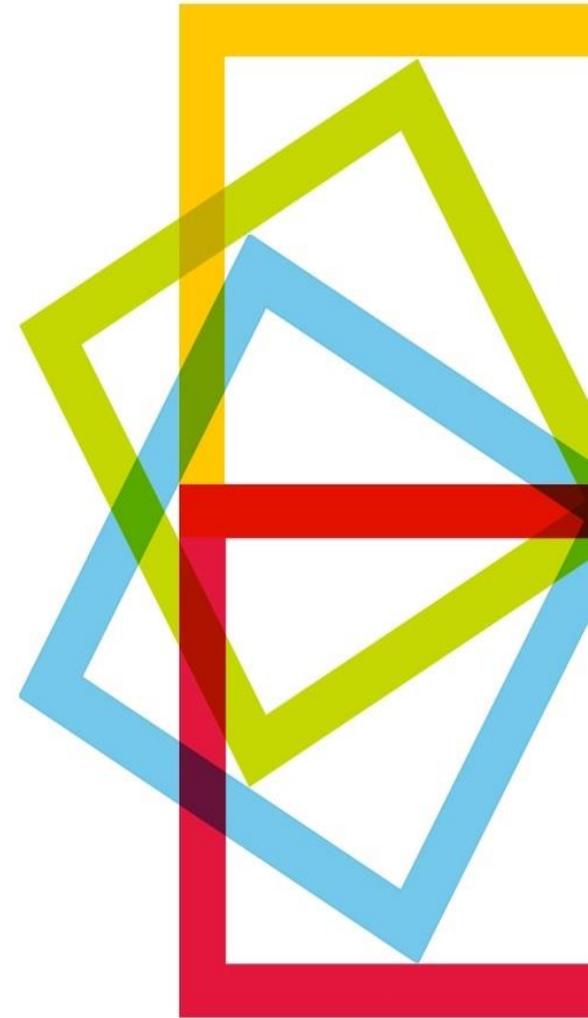
McGRAW HILL FINANCIAL

Infrastructure Investment and U.S. State Debt

Southern Legislative Conference 2013 Annual Meeting

**Henry Henderson
Director
U.S. States Group**

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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 Scale

AAA Extremely Strong

AA+

AA Very Strong

AA-

A+

A

Strong

Investment Grade

A-

BBB+

BBB

Adequate

BBB-

BB+

BB

Vulnerable

BB-

B+

B

More Vulnerable

Speculative Grade

B-

CCC+

CCC

Imminent Vulnerability

CCC-

CC

Highly Imminent Vulnerability

D

Default

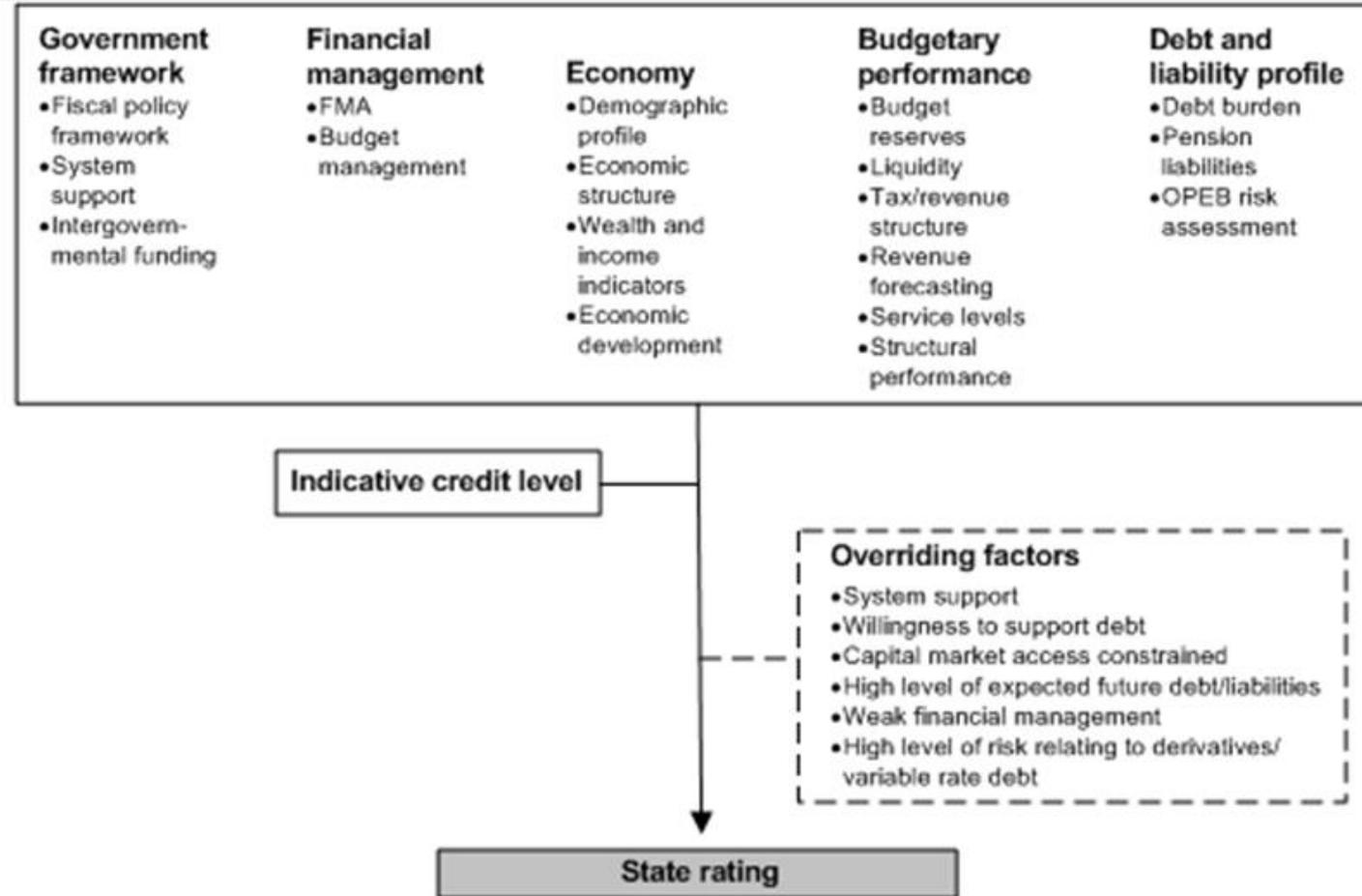
U.S. State Ratings Criteria

- **Government framework**
- **Financial management**
- **Economy**
- **Budgetary performance**
- **Debt and liability profile**

U.S. State Ratings Criteria

Chart 1

Standard & Poor's Analytic Framework For Rating U.S. States



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State Debt

S&P's View on State Debt

- **We believe that state debt levels are moderate overall and that states are not laboring under unbearable debt burdens**
- **Debt ratios are not significantly higher now than before the Great Recession**
 - **Aggregate tax-supported debt in the 50 states in fiscal 2012 increased by 2.8% from fiscal 2011 to \$488 billion**
- **Median ratio of debt service to general governmental spending was 3.7% in fiscal 2012**
- **Unlike many sovereign governments, U.S. state debt is almost entirely issued for capital projects, not operations**
 - **U.S. state debt is also nearly all amortizing debt**

S&P's View on State Debt (cont.)

- **Significant demands to reinstate services, reduce taxes, and fund pension and healthcare costs should leave limited appetite for additional debt.**
- **Finding an appropriate balance of funding infrastructure and other priorities will remain a challenge in a environment of tepid revenue growth and potential reduced federal funding.**
- **Many states have recently had large proposed infrastructure programs, particularly for transportation, but many were downsized or not enacted.**

State Debt and Liability Factors

- **Tax-supported debt (TSD) per capita**
- **TSD as percentage of personal income**
- **TSD as percentage of gross state product**
- **Debt service as percentage of general gov. spending**
- **Debt amortization**
- **Pension funded ratio**
- **Pension annual funding levels**
- **Unfunded pension liability per capita**
- **Unfunded pension liability to personal income**
- **OPEB risk assessment**

U.S. Infrastructure

U.S. Infrastructure

- **The American Society of Civil Engineers' (ASCE) latest assessment of U.S. infrastructure: D+ grade overall, D grade for highways**
- **ASCE reports that 1 in 9 bridges is structurally deficient**
- **The Federal Highway Administration indicates that all levels of government would need to invest \$170 billion/year to significantly improve highway conditions**
- **Only \$91 billion per year is being spent now**

U.S. Infrastructure (cont.)

- **The latest EPA surveys report \$384.2 billion of infrastructure needs for drinking water, and \$298 billion of needs for sanitary sewer**
- **The EPA surveys are used to determine the allocation of state revolving fund money the EPA appropriates to each state**
- **Other professional organizations estimate even greater needs**

Infrastructure Financing Options

Overview of Infrastructure Financing

- **In many cases, revenues to repay infrastructure investments will be paid by users through user fees, tolls, etc.**
- **In other cases, investments are funded more generally through taxes on a wider base**
- **Local governments and states may attempt to shift project risks through P3 structures**

Typical Transportation Project Funding Options

- **Federal Grant-Secured Obligations (GANs/GARVEEs)**
- **General Obligation Bonds (GOs)**
 - Appropriation debt (Certificates of Participation - COPs)
- **Sales Tax Revenue Bonds**
- **Gas Tax Revenue Bonds**
- **Motor Vehicle Registration Fee Bonds**
- **Enterprise Revenue Bonds**
 - Airports, Ports, Parking, Toll Roads, Transit Systems
- **Public Private Partnerships (P3)**
 - With or without TIFIA in the capital structure

S&P's View on Tax-supported Debt

- **Debt analysis is a primary focus on S&P's credit analysis**
- **S&P's tax-supported debt calculations include GOs, appropriation debt, and special-tax bonds such as sales, personal income and gas tax bonds**
- **In general, the calculations will not include:**
 - **Debt for true enterprise or self-sustaining purposes, such as toll revenue bonds**
 - **GARVEES, if payable solely from dedicated federal revenues**
 - **Tobacco settlement bonds, if they conform to stress scenarios and are payable exclusively from settlement revenues**
 - **Contingent debt obligations that historically have not needed state support**

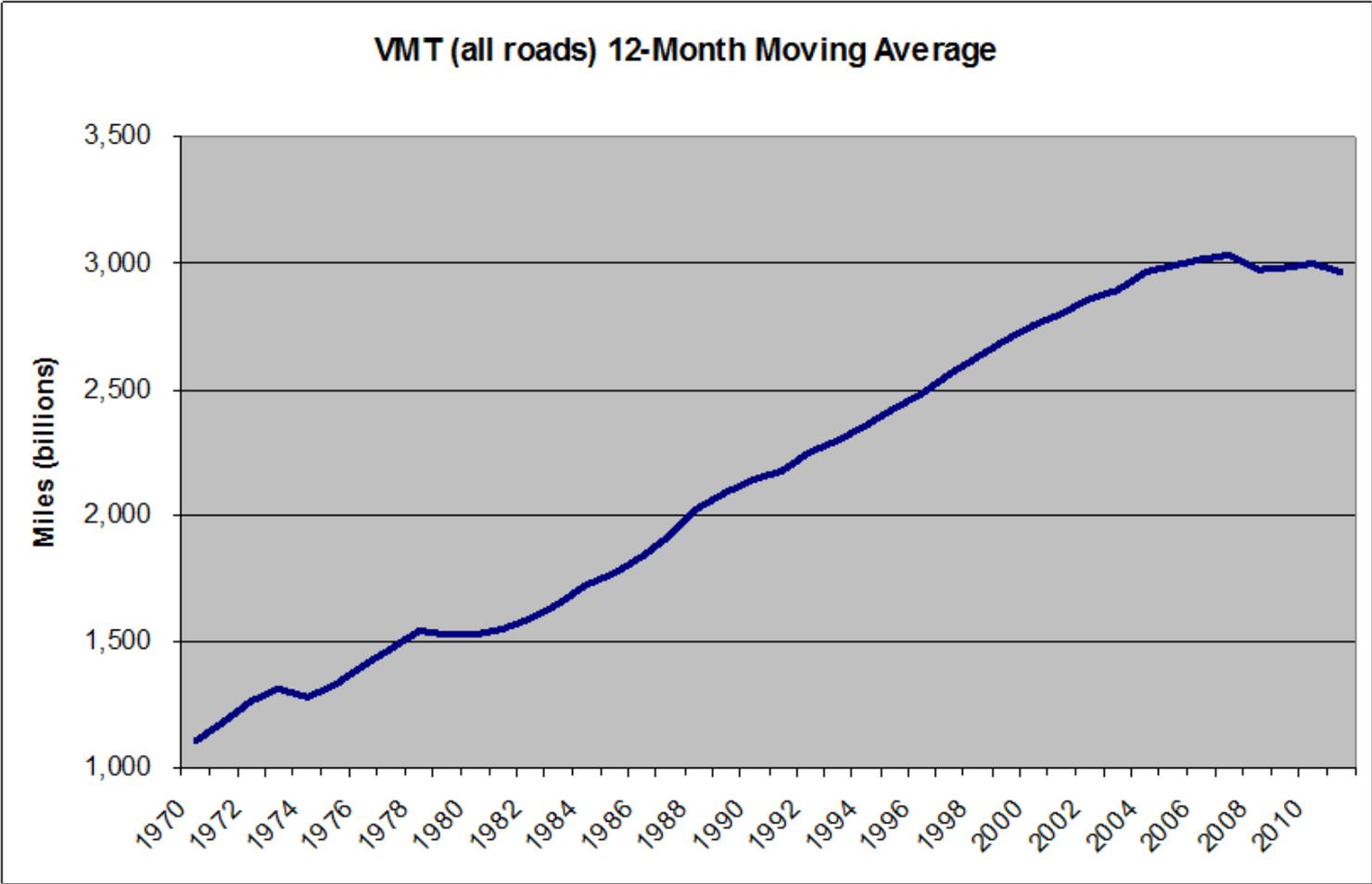
Public Private Partnerships (P3s)

- Risk-sharing method used globally and becoming more popular in the U.S.
- Includes some private investment and typically a transfer of construction and operating risk to a private party
- Done as either availability or volume-based projects
 - Availability projects: state would make milestone payments and recurring availability payments, often backed by tolls, gas taxes, or appropriations
 - Volume-based projects: government receives upfront payment and allows private entity to collect project revenues
- Political Acceptance of P3s
 - Less political appetite for private concessions of existing assets
 - More appetite for new capacity construction projects, due to increased risk for start-up projects.

U.S. Transportation Infrastructure Finance and Innovation Act

- **TIFIA loans are federal loans sometimes used as part of P3 financing**
- **The loans are repaid after senior debt in the cash waterfall**
- **Designed to make the financing more attractive**
Upon a “bankruptcy related event” (BRE), TIFIA loan becomes on a parity with senior lien
- **A BRE occurs if two consecutive mandatory payments missed or a bankruptcy filing**

Vehicle Miles Traveled



Relevant Recent S&P Publications

- **2013 U.S. Debt Review, July 10, 2013**
- **Top 10 Investor Questions For 2013: Global Public Private Partnership Infrastructure Investment, December 5, 2012**
- **U.S. State Ratings Methodology, January 3, 2011**



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Thank You

Henry W. Henderson

Director

617.530.8314

henry.henderson@standardandpoors.com



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