NACWA
A Clear Commitment to America's Waters

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Submitted Via S&P's Online Portal

Subject: NACWA Comments on Standard & Poor's *U.S. Public Finance Waterworks, Sanitary Sewer, and Drainage Utility Systems: Methodology and Assumptions*

The National Association of Clean Water Agencies (NACWA) appreciates the opportunity to comment on the proposed changes to Standard & Poor's methodology for rating the credit-worthiness of public water, wastewater, and drainage utility systems. NACWA represents nearly 300 public wastewater utilities nationwide. Revenue bonds are the preferred debt financing source for the majority of NACWA's members, accounting for over 71 percent of total outstanding debt among the NACWA membership as of January 1, 2014.[1] Given this reliance on revenue bonds for making needed infrastructure repairs and upgrades, the proposed changes to the ratings methodology are important to NACWA members.

The Association applauds Standard and Poor's efforts to increase transparency and comparability of the rating methodology. However, the emphasis put on transparency should not result in a mechanical methodology that does not provide a fully accurate picture of the utility. While some uniformity in assessing enterprise and financial risks is important, special attention must be given to the overriding factors associated with a particular utility. These overriding factors are important given the ever-changing debt and financial environment for utilities as unanticipated capital expenditures, changes in industries, and environmental regulatory matters can dramatically affect the budgets and future capital plans of any utility. The methodology should not jump too quickly to a comparison of utilities given the often unique issues facing different clean water utilities.

Within the Enterprise Risk profile, the "Industry Risk" factor seems to be assigned too much weight given that "Industry Risk" is often outside of the utility's control.

[1] 2015 NACWA Financial Survey, Executive Highlights. February 2015.

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For instance, flows and loadings associated with wastewater treatment facilities may differ dramatically from community to community and regionally across the country. Moreover, while private industries can adapt and move their location relatively quickly, wastewater utilities cannot move quickly or at all. The very nature of water and wastewater utilities means that they must commit to a particular location and operational path without the luxury of quickly adapting to market changes. Therefore, a weight of 20 percent may be too high as external environmental changes, outside the control of the utility, are unknown. In addition, NACWA believes that linking a utility's enterprise or financial health to that of an associated municipal government does not provide an accurate reflection of the utility's position. The utility should be rated based on its own merits and not on those of related governmental agencies.

Lastly, using the Median Household Effective Buying Income (MHHEBI) as a basis for determining multiple components of the Enterprise Risk Assessment is concerning. The MHHEBI is not readily available to issuers, which will make it difficult for utilities to evaluate how they will perform in a ratings assessment.

Thank you for your consideration of these comments. Please contact me at 202/833-9106 or chornback@nacwa.org if you have any questions or would like to further discuss any of the comments.

Sincerely,

Chris Hornback
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