

RatingsDirect®

New York City Municipal Water Finance Authority; CP; Water/Sewer

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New York City Municipal Water Finance Authority; CP; Water/Sewer

Credit Profile

US\$600.0 mil wtr and swr sys 2nd gen resolution rev bnds ser 2025 AA-1 due 06/15/2054		
<i>Long Term Rating</i>	AA+/Stable	New
US\$300.0 mil wtr and swr sys 2nd gen resolution rev bnds ser 2025 AA-2 due 06/15/2054		
<i>Long Term Rating</i>	AA+/Stable	New
New York City Mun Wtr Fin Auth WS (1st resolution)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to the New York City Municipal Water Finance Authority's (New York Water [NYW]) anticipated \$900 million fiscal 2025 series AA, subseries AA-1 and AA-2 water and sewer system second general resolution revenue bonds, issued on behalf of New York Water.
- At the same time, we affirmed our 'AAA' rating on the authority's first general resolution bonds, our 'AA+' rating on its second general resolution bonds, and our 'A-1+' commercial paper (CP) program rating.
- Finally, we affirmed our 'A-1+' and 'A-1' short-term ratings on the system's outstanding debt, where applicable, based on the liquidity provider's short-term rating.
- The outlook, where applicable, is stable.

Security

All bondholders benefit from a gross revenue pledge and a statutory, perfected lien. The second resolution bonds do not benefit from a debt service reserve fund. We maintain a one-notch difference between the first and second general resolution bonds based primarily on the significantly stronger coverage of the first-lien bonds and that the amount of debt outstanding on the first resolution, while representing only 1.2% of first and second resolution outstanding bonds, is substantial; NYW has approximately \$405.7 million in first general resolution bonds and \$32.2 billion in second general resolution bonds outstanding. It plans to use the series 2025 AA-1 bonds to pay for system improvement costs while the AA-2 bonds will be used to refund or repurchase certain outstanding debt.

Current law does not authorize NYW or the board to declare bankruptcy. While S&P Global Ratings does not rate to recovery, the presence of a statutorily perfected lien and limitations around bankruptcy are viewed as positive structural provisions.

Credit overview

Our 'AAA' long-term rating on the first general resolution bonds reflects our view of NYW's broad, diverse, and affluent service area as well as the sophisticated management team that supports its highly complex operating profile and capital plan. NYW has used carry-forward cash balances to fund its debt service well in advance of payment dates, which functions as a de facto set-aside for all of its bonds. The security structure provides significant bondholder

security and robust system liquidity, which in turn provide operating flexibility and mitigate the potential financial pressure from event risk. Because of this strength, the rating incorporates a consideration for extraordinary financial strengths related to lien-based debt service coverage (DSC) on all debt that is significantly higher than 3x and maintenance of unrestricted liquidity that has not dropped below \$1 billion for at least the last five fiscal years; at June 30, 2023, unrestricted cash and investments totaled \$2.1 billion.

When accounting for all utility operating expenses (including those that are subordinate, such as base rental), we consider projected all-in coverage somewhat lower than that of its peers at the current rating level. On this all-in net revenue basis of coverage, our calculations indicate DSC equal to about 2x historically. Our review of management's projections indicates that to maintain this 2x DSC figure, management will need to outperform its projections through some combination of positive operating variances (through rate revenue or other revenue and expense line-items), debt refinancing opportunities, or a lower base rental payment. We note that management's projections assume the maximum full base rental payment request for future fiscal years, but the city has to date not requested these payments for future fiscal years.

NYW faces several challenges related to the macroeconomic and policy landscape, as well as the age, size, and complexity of the system's underlying infrastructure. The authority's ability to balance rate affordability, financial health, and system investment is an important credit consideration, especially since the economic recovery has been relatively slow and the city continues to face challenges.

In our view, the next several fiscal years will be critical from a financial perspective because the effects of the restarting of lien sales, traction for efforts to reduce accounts receivable, sustainability of currently projected 8.5% annual rate increases, the likelihood of future base rental payment requests, and the trajectory of per- and polyfluorinated substances (PFAS) regulations will help indicate whether NYW's financial performance will be sustainable in a fashion that is consistent with historical trends and the current rating level.

Additional key credit factors include our view of the authority's:

- Broad and diverse economic and customer base, without comparably sized peers; economic recovery has begun, but remains slightly below the national level, with continued weakness in income and population growth;
- Affordable rates, with annual rate increases of 8.5% projected in 2026-2028, following an 8.5% approved rate increase for fiscal 2025; rate-setting is flexible, with the ability to increase rates within 30 days, which we view favorably;
- Seasoned and effective management team and board, which we believe have a strong sense of fiduciary duty as well as operational and financial acumen, which supports our credit view and our confidence in management, despite the substantial complexities NYW faces during the outlook period, including a sizable capital plan, labor challenges, uncertainties related to collections and lien policy, and increasing climate change pressures, all in a challenging economic environment; and
- Extremely strong liquidity position, both actual and on a days' cash basis, which is critical to financial flexibility and credit strength. The ability to maintain significant cash balances directly influences DSC, given the carry-forward of balances on an annual basis. This practice also allows for a more level rate structure, although if the use of rolling cash balances results in rate increases being postponed, we would view it as indicative of potential structural issues, which could pressure credit quality.

Environmental, social, and governance

New York Water is faced with numerous ongoing environmental, social, and governance factors that affect our analysis. We believe the system has outsized environmental risks, given the regulatory and climate resilience efforts that will be required to maintain its infrastructure at adequate levels.

The management and governance structure--with separate entities for operations, governance, and finance--has allowed for critical and apolitical decision-making, with an eye toward both financial integrity and maintaining operations at a high level. We believe its governance efforts are sophisticated, which supports addressing long-term risks associated with asset adequacy.

Extreme weather events are becoming more common and ongoing sea-level rise will present system challenges. Emergency preparedness has improved, but climate resilience has taken on more urgency and is expected to require significant additional funding. NYW and the city have several planning initiatives, including resiliency planning, climate change modeling, and annual reporting to measure progress.

In 2021, the city released a report on "The New Normal," which addresses risk mitigation related to extreme storms. This report outlines efforts to reduce emissions, harden infrastructure to protect shoreline communities most vulnerable to storms, and initiatives to create a continuous line of protection against rising sea levels and storms. Specific to NYW, the report addresses its substantial need to rehabilitate and replace sewer pipes that were designed a century ago and are expected to be inadequate for current climate considerations. The report highlights the long- and short-term upgrades needed as well as innovative drainage solutions.

We believe management's approach to climate resiliency and sustainability is sound, and there is strong collaboration with the city. Given the age of the system and the regional climate risks, the capital plan addresses infrastructure projects that result in a more resilient system and has been enhanced to incorporate some of the projects associated with the recent report.

Further, management continues to refine and improve its asset management program, including well-defined policies that provide a uniform methodology for a comprehensive evaluation of capital assets and a systematic approach to scheduling preventive maintenance and upgrades. This is a critical factor in our asset adequacy assessment and our view of governance, given the advanced age of NYW's infrastructure and the potential risks for catastrophic failures.

Median household effective buying income varies widely from borough to borough. Given those differences, the city's Department of Environmental Protection (DEP) has a bill pay assistance program for low-income, senior, and disabled customers that we consider at least as robust in achieving social goals as those of comparable peer cities.

Rating above the sovereign

Although the rating on NYW's first general resolution bonds is currently above that of the U.S., its revenue base is predominantly locally derived. Local service charges, derived through an autonomous rate-setting process, represent virtually all the entity's revenue. This, coupled with operating expense flexibility, precludes exposure to federal revenue and allows us to rate the system's first general resolution debt above that of the U.S.

Outlook

The stable outlook reflects our belief that NYW will retain the financial capacity and management autonomy to navigate its near-term economic, infrastructure, climate, and regulatory pressures. Maintenance of the outlook relies on management's ability to successfully achieve positive financial variances as it has in the past, leading to stronger carry-forward revenue and DSC than current projections indicate.

Downside scenario

While we believe that NYW's budgeting practices are generally conservative and credit-supportive at the current rating, the rating could be pressured by a general misalignment between revenue and revenue requirements or a reduction in enforcement ability that leads to financial performance that is consistently weaker than historical trends. We believe management has the capacity and willingness to adjust rates to meet its capital and operating needs, as evidenced by the board having a very long history of adjusting rates, usually annually, as needed. However, we will monitor the need for additional rate increases and any indication of reduced rate-setting flexibility or management autonomy.

Economic considerations for the city could also affect the rating, as evidenced by the city requesting the base rental payment for fiscal 2024, which is indicative of the economic impacts on city financial performance as well.

Upside scenario

Consistent with the application of our "Assigning Issue Credit Ratings Of Operating Entities" criteria (published May 20, 2015, on RatingsDirect), we do not consider there to be upward rating potential on the second general resolution debt.

Credit Opinion

In the short term, labor challenges remain significant for both NYW and the sector. They pose an outsized credit risk for NYW, despite management reducing vacancies to 11% during the past year. Operations have not been affected yet due to the use of overtime, schedule reallocations, and targeted technical hiring. We consider an entity's ability to hire and retain essential staff an important aspect in our operational effectiveness assessment. In addition to addressing its labor challenges, the system continues to navigate remedies and enforcement of collections, which affect delinquencies. However, the city has been authorized to sell its water or sewer liens for the first time since March 2022, which we view positively from a collections perspective and could further support enforcement and rate-setting practices. The system's relative autonomy with respect to enforcement and hiring is critical to its credit quality. Limitations from the city or city council that reduce its operating or financial independence would be detrimental to credit quality.

In the longer term, we believe capital investment and the influence on affordability (and thus financial performance) will affect credit performance. The fiscal 2025 capital encumbrance is \$3.25 billion, a 19% increase from the fiscal 2024 level. The authority expects to finance \$8.8 billion of the capital plan from 2025-2028 with bonds and other debt. NYW has a very sophisticated management team but it faces challenging projects to address system rehabilitation and

climate change, and operates in an aggressive regulatory environment--with new rules pending for lead and copper as well as PFAS. In our view, NYW's project management acumen is high and despite the complexity of several projects, we believe management has taken steps to identify potential risks and associated contingencies or mitigants. This is especially important as several projects involve water quality, health, and safety and are long overdue. The DEP performs a quarterly review of the authority's construction portfolio for timeline variances, and takes corrective action when appropriate, which we view favorably.

New York City Municipal Water Finance Authority, New York--Economic and financial data

	Fiscal year-end				Median (AAA)
	Most recent	2023	2022	2021	
Economic data					
Water customers	838,500				82,450
Sewer customers	838,500				66,870
MHHEBI of the service area as % of the U.S.	102.1				114.0
Unemployment rate (%)	4.6				3.4
Poverty rate (%)	17.7				10.2
Water rate (6,000 gallons or actual) (\$)	39.0				33.0
Sewer rate (6,000 gallons or actual) (\$)	61.9				37.0
Annual utility bill as % of MHHEBI	1.8				1.0
Operational Management Assessment	Good				Good
Financial data					
Gross revenues (\$000s)		4,202,967	3,879,042	3,655,991	77,481
Total operating expenses less depreciation (\$000s)		1,921,624	1,710,709	1,861,937	50,331
Net revenues available for debt service (\$000s)		3,934,151	3,514,237	3,149,508	
Debt service (\$000s)		1,706,600	1,540,800	1,459,800	
S&P Global Ratings-adjusted all-in DSC (x)		2.3	2.3	2.2	2.6
Unrestricted cash (\$000s)		2,056,066	1,572,206	1,358,551	78,493
Days' cash of operating expenses		391	335	266	610
Total on-balance-sheet debt (\$000s)		34,866,782	34,258,878	33,597,888	139,496
Debt-to-capitalization ratio (%)		94.8	95.4	95.9	22.5
Financial Management Assessment	Strong				Strong

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 18, 2024)

Ratings Detail (As Of September 18, 2024) (cont.)

New York City Municipal Water Finance Authority WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Municipal Water Finance Authority W/S (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr and swr sys second gen res rev bnds, adj rt		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr and swr sys 2nd general resolution rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr swr sys second gen resolution rev bnds ser 2020EE due 06/15/2042		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys first resolution bnds		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resolution rev bnds fiscal 2011 VRDBs ser DD-3B dtd 11/18/2010 due 06/15/2043		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth EMCP series 7		
<i>Short Term Rating</i>	A-1+	Affirmed
New York City Mun Wtr Fin Auth EMCP series 8		
<i>Short Term Rating</i>	A-1+	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of September 18, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (CIFG) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (FGIC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (FGIC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (FGIC) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed

Ratings Detail (As Of September 18, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of September 18, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of September 18, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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