

**Summary:**

**New York City Municipal Water  
Finance Authority; CP; State  
Revolving Funds/Pools; Water/Sewer**

**Primary Credit Analyst:**

Scott D Garrigan, New York (1) 312-233-7014; scott.garrigan@spglobal.com

**Secondary Contact:**

Theodore A Chapman, Dallas (1) 214-871-1401; theodore.chapman@spglobal.com

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## Summary:

# New York City Municipal Water Finance Authority; CP; State Revolving Funds/ Pools; Water/Sewer

### Credit Profile

US\$451.535 mil wtr & swr sys 2nd general resolution rev bnds ser 2020AA dtd 07/02/2019 due 06/30/2040		
<i>Long Term Rating</i>	AA+/Stable	New
US\$222.875 mil wtr & swr sys 2nd general resolution rev bnds ser 2020BB-1 due 06/15/2049		
<i>Long Term Rating</i>	AA+/Stable	New
US\$150.0 mil wtr & swr sys 2nd general resolution rev bnds ser 2020BB-2 due 06/15/2026		
<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
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating to the New York City Municipal Water Finance Authority's (NYCMWFA, or New York Water) series 2020AA and 2020BB water and sewer system second general resolution revenue bonds. At the same time, S&P Global Ratings affirmed its 'AAA' unenhanced long-term rating on the system's first general resolution revenue bonds and its 'AA+' underlying ratings (SPURs) on the authority's existing second-resolution bonds. In addition, S&P Global Ratings affirmed its 'A-1+' rating on NYCMWFA's commercial paper (CP) program. The outlook is stable for all long-term ratings.

We also affirmed various short-term ratings on NYCMWFA's second-resolution bonds, whose ratings are based on the liquidity support provided by various financial institutions.

The 2020AA bond proceeds will refund existing second-resolution bonds for cost savings, and the 2020BB bonds will provide \$450 million in new money for capital projects.

The difference between the long-term ratings on the first- and second-resolution bonds reflects lien priority and the active use of both liens. We have applied our primary criteria to determine the entity's general creditworthiness (issuer credit rating), and have applied this rating to the first general resolution (senior) issues. We also assigned a rating that is one notch lower than the rating on the second general resolution (subordinate-lien) issues. The long-term ratings reflect the combination of very strong enterprise and financial risk profile assessments and additional credit strengths separately identified below.

The very strong enterprise risk profile assessment reflects our view of New York Water's:

- Exceptionally broad and diverse economic and customer base;
- Rates that remain affordable, despite ongoing increases; and
- Strong operational management.

The very strong financial risk profile assessment reflects our view of the system's:

- Extremely strong coverage levels;
- Extremely strong liquidity position, both nominally and on a days' cash basis; and
- Very strong financial management policies and practices.

Also supporting the ratings is our opinion of the service area, which is unique in the country in that it includes major economic centers and economically supports a much larger area than the service base. An additional contributor to the current rating is the system's extremely strong financial performance, which we also view as a strength relative to other similarly rated peers.

The bond provisions include a gross pledge of revenue that results in true separation from the utility's operating function, coupled with both the New York City Water Board's ability to raise rates (a trueup mechanism) and the segregation of funds.

The system serves about 835,000 accounts, primarily in New York's five boroughs, all but 4% of which billed based on metered flow. In addition, the authority provides water to about one million customers in Westchester, Putnam, Orange, and Ulster counties, and is required to make service available to any county in which it has water facilities. About 91% of the system is residential, with commercial and industrial users accounting for the balance. The overall operational profile, reviewed annually by a consulting engineer, continues to receive high marks. The raw water source remains pristine and has been ample for decades, even as per capita per day consumption has generally declined. Treatment capacity is adequate to meet demand for both the water and sewer systems, and the treatment plants, overall, face no ongoing compliance-related issues.

As of June 2020, NYCMWFA will have about \$30.5 billion in total debt outstanding, \$28.9 billion of which will be second-resolution revenue debt and bond anticipation notes. A first-lien pledge on the system's gross revenue secures the first-resolution debt. A debt service reserve fund (DSRF) provides additional liquidity to the first-resolution debt. The second-resolution bonds are subordinate and do not benefit from a DSRF. Although New York Water's debt is currently rated above the U.S., the system has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, precludes exposure to federal revenues.

### **Enterprise risk profile**

The very strong enterprise risk profile assessment reflects the very deep and diverse economic and customer base the authority serves. The large base provides substantial resources to management that allow for economies of scale as management addresses capital and operational challenges. Given the service area's diversity and size, median household effective buying income (MHHEBI) levels tend to skew toward the average at 98% of the national level,

which represents the weighted average of MHHEBI in all five boroughs. The actual utility bill is about 2.1% of this average MHHEBI, a level that we consider affordable.

Based on our operational management assessment (OMA), we view New York Water to be a '2' on a scale of '1' to '6', with '1' being the strongest. This indicates, in our view, that operational and organizational goals are generally well aligned, even if some challenges exist. The OMA of good includes an independent consulting engineer's opinion--updated annually--that the system's condition is generally very good. While replacing aging infrastructure will remain a focus, including helping remediate nonrevenue water and regulatory requirements related to the sewer system, the water supply's quality and quantity are extremely favorable. The governance and management structure has also allowed for critical decision-making with an eye toward financial integrity and maintaining operations at a high level.

Management has the capacity and demonstrated willingness to adjust rates when necessary, especially in the face of a sizable system-funded capital improvement plan (CIP) of \$22.4 billion in forecast capital commitments from fiscal years 2019-2029. Despite the sheer size of the CIP, the New York Department of Environmental Protection has been extremely successful in managing the myriad of projects to timeline and to budget, while still meeting or beating all deadline-certain requirements.

The water board has a long history of adjusting rates annually as necessary. Due to the conservatism in the budgeting, actual rate increases are typically less than originally forecast. The 2.31% increase implemented for fiscal 2020 was the lowest in 10 years. Because management continually updates its extensive long-term plans, we believe it will continue to beat its forecast even if the implemented rate adjustments remain smaller than originally planned.

### **Financial risk profile**

The very strong financial risk profile assessment reflects the debt service coverage (DSC) results, liquidity levels, and overall financial management policies and practices. DSC on first-resolution and combined first- and second-resolution debt, as calculated by management, was 62.8x and 10.2x, respectively, for fiscal 2018. When we calculate coverage on combined first- and second-resolution debt based on both combined water board and authority operating income, less depreciation and including investment and subsidy income and combined first- and second-resolution net debt service, DSC is still what we consider an extremely strong 6.5x. The authority projects combined senior and subordinate DSC will remain steady at a still-healthy minimum 3.4x through 2023. Because the forecast is predicated on conservative assumptions, we have observed that actual financial results tend to be in line with, if not outperform, the projections.

Liquidity, in our view, remains a major strength as well. Fiscal 2018 ended with a net cash year-end balance for both the water board and the NYCMWFA's revenue fund of more than \$1 billion, even after a cash defeasance of \$825.0 million. This puts total cash reserves equivalent to about 290 days of operating expenses. While the authority has interest-rate swaps that as of the end of fiscal 2018 carried an unfavorable mark-to-market valuation of \$76 million, we believe that the cash position is ample to address even the worst-case scenario of contingent liquidity risks, no matter how remote. In addition to the cash position, New York Water's cash flows are also notable: It is our understanding that the debt service funds held with the trustee are typically fully funded within the first few months of the fiscal year, allowing management to deploy its cash as it best sees fit, such as the \$1.7 billion of projected cash-financed capital construction costs through fiscal 2023, which according to management could also be deployed to defease debt

outstanding.

The main purpose of the capital program is rehabilitation of assets, both on a discretionary basis and due to regulatory mandates. Even given the unfunded environmental mandates, management has reduced regulatory based water pollution control projects over time. The planned capital commitments from fiscal years 2019-2029 will fund improvements to all aspects of operations, with the sanitary sewer system accounting for approximately \$13.7 billion in identified needs. Typically, officials initially fund certain capital improvements through the \$600 million CP program before using long-term debt to retire the CP. The authority's forecast from fiscal years 2020-2023 assumes about \$7.6 billion of additional debt from bonds, or just less than about \$2 billion per year.

We view financial management as strong, meaning policies are embedded and likely sustainable. Interim financial results are produced and shared throughout the year and management updates its multiyear financial projections and CIP throughout the fiscal year. There are formal policies regarding liquidity and investments, and independently audited financial statements are produced annually.

## Outlook

The stable outlook reflects our expectation that the system's financial profile will remain commensurate with the ratings over our two-year horizon. The large CIP, in our view, reflects the current regulatory environment and that the authority serves more than nine million people. We believe the strong management, including long-term planning and transparency regarding future rate adjustments, will continue to allow the authority to fund identified needs despite expected inflationary rises in operating costs and sizable amounts of additional debt.

### Upside scenario

Given the application of our "Assigning Issue Credit Ratings Of Operating Entities" criteria (published May 20, 2015), we do not view there to be upward rating potential on the second general resolution debt unless the senior lien was closed and the amount of senior-lien obligations remained minimal relative to total debt outstanding.

### Downside scenario

While highly unlikely, downward pressure on the rating would most likely be associated with a complete collapse of the financial risk profile, possibly associated with remote events such as extraordinary intervention, aggressive use of riskier debt instruments, or a new unfunded mandate from environmental regulators that could cause a sharp deviation in financial performance.

#### Ratings Detail (As Of June 21, 2019)

New York City Mun Wtr Fin Auth wtr and swr second gen resolution rev bnds		
<i>Long Term Rating</i>	AA+/A-1/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 1st resolution bnds		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resolution rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

**Ratings Detail (As Of June 21, 2019) (cont.)**

New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resolution rev bnds <i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resolution rev bnds <i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen res rev bnds <i>Long Term Rating</i>	AA+/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/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/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/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/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/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS <i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS <i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS VRD <i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed

**Ratings Detail (As Of June 21, 2019) (cont.)**

New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/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) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (AGM)		
<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 (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 June 21, 2019) (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+/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+/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+/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 June 21, 2019) (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+/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
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (AGM) (SEC MKT)		
<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
<b>New York City Mun Wtr Fin Auth wtr &amp; swr</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>New York City Mun Wtr Fin Auth wtr &amp; swr VRDB ser 1995A</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

**Ratings Detail (As Of June 21, 2019) (cont.)**

**New York St Envir Facs Corp, New York**

New York City Mun Wtr Fin Auth, New York

New York St Envir Facs Corp SRFPOOL (2nd Resolution)

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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New York St Envir Fac Corp (New York City Mun Wtr Fin Auth) SRFPOOL

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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New York St Envir Fac Corp (New York City Mun Wtr Fin Auth) SRFPOOL

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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