

Paying for Sustainable Water Infrastructure: Innovations for the 21st Century

State and Local Innovations Alternative Revenue Sources: Credit Issues

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Moody's Investors Service

Willingness and ability to raise rates and revenue is a key element of the rating

- What are the components – user fees, connection fees, impact fees are the most common
- Revenue projections should be part of long term planning to ensure rate stability and to avoid rate shock – should reflect the full cost of service
- Revenue should allow for build up of adequate liquidity for pay-as-you-go financing and unexpected costs
- Revenue raising authority – Who approves and what are the restrictions/legal framework



Revenue Source: Economy & Customer Base

- Diversity & size of customer base (customer concentration)
- Strength of the economy
- Ability to meet growing demand/rapid population growth
- Economic vulnerabilities - ability to deal with declining population & demand
- Large fixed costs can place smaller systems under more financial pressure



Financial Operations & Covenants

- **Strong Margins Support Strong Ratings**
- **Historical and projected financial performance are considered – revenue volatility**
- **Liquidity is a key credit factor (rate stabilization funds, operating reserves, other funds)**
- **Adequate bondholder covenants are important**
- **Other credit enhancements are considered**



Moody's Water & Sewer Rating Distributions - 2006



