



Rating Action: Moody's Assigns A2 Rating to PWSA's (PA) \$217M Series C of 2017 Rev. Ref. Bonds, Outlook Remains Negative

Global Credit Research - 01 Dec 2017

New York, December 01, 2017 -- Issue: Water and Sewer System First Lien Revenue Refunding Bonds, Series C of 2017; Rating: A2; Rating Type: Underlying LT; Sale Amount: \$217,345,000; Expected Sale Date: 12/05/2017; Rating Description: Revenue: Government Enterprise;

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Pittsburgh Water and Sewer Authority, PA's \$217 Million Water and Sewer System First Lien Revenue Refunding Bonds Series C of 2017. Moody's affirms the A2 rating on approximately \$606 million of first lien revenue bonds currently outstanding. The outlook is negative.

The A2 rating reflects the Authority's large size with considerable assets, serving more than 80% of the city of Pittsburgh (A1 stable), a major metropolitan area. The A2 rating also considers the Authority's history of operating and maintenance deficiencies, its high debt burden, and the expectation of future debt issuances to address the Authority's substantial capital needs, including improvement of a significantly aged and inadequately maintained infrastructure.

Rating Outlook

The negative outlook reflects our concern that historical operating and maintenance inefficiencies will persist, posing a challenge to full implementation of a much needed capital improvement plan. While PUC regulation is likely, and a major rate increase was recently implemented, PWSA is still in the beginning stages of addressing its major capital needs and operating deficiencies. In the absence of substantially improved maintenance of the Authority's infrastructure, the negative outlook reflects our expectation of downward rating pressure.

Factors that Could Lead to an Upgrade

Meaningful reduction of debt

Factors that Could Lead to a Downgrade

Further narrowing of debt service coverage

New revenues not deployed effectively to address near term infrastructure and operating needs

Escalation of environmental concerns, particularly lead levels in treated drinking water

Legal Security

The 2017 Series C bonds are limited obligations of the authority, payable from pledged water and sewer system revenues.

Use of Proceeds

Proceeds from the 2017 C bonds will be used to refund the authority's existing variable rate debt, Series 2008 B1, Series 2008 B2, and Series 2008 D2. The net present value of savings is estimated to be 8.88% of refunded bonds.

Obligor Profile

This is an authority of the city of Pittsburgh, providing water treatment and conveyance to 84% of the city's population and sewer conveyance for the entire city.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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