



25 March 2025

Ken Martin

s7(2)(a)

Dear Ken

Request for Information – Local Government Official Information and Meetings Act (LGOIMA) 1987

We refer to your official information request dated 19 March 2025:

“Standard and Poor’s (S&P) credit agency has lowered Hutt City Council’s long term credit rating one notch from AA to AA- with the rating outlook maintained at a ‘negative’ outlook. The short-term rating of A-1+ remains unchanged.

Under the OIA Act and any amendments have there been any further downgrades? ”

Answer:

Please see attachments in response to your request.

You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Please note that this response to your information request may be published on Hutt City Council's website. Please refer to the following link:

www.huttcity.govt.nz/council/contactus/make-an-official-information-act-request/proactive-releases

Yours sincerely

Lakna Siriwardena

Legal Operations Advisor

Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment

March 18, 2025

- New Zealand's local government sector is heavily indebted due to councils' consistently increasing capital investments. We believe the sector's revenue and expenditure balance and predictability of policy have weakened.
- On Feb. 24, 2025, we lowered our institutional framework assessment for New Zealand local councils to very predictable and well balanced, the second highest assessment on our six-point scale. The trend of our institutional framework assessment is stable.
- As a result, we lowered by one notch our ratings on 18 councils and three council-controlled organizations. We also affirmed our ratings on two councils.

MELBOURNE (S&P Global Ratings) March 18, 2025--S&P Global Ratings today lowered by one notch its ratings on 18 New Zealand local councils and three council-controlled organizations. Outlooks on three of these councils and two council-controlled organizations are negative. Outlooks on the remaining 15 councils and one council-controlled organization are stable. We also affirmed our ratings on two councils. The outlook on one is stable and the outlook on the other is negative (see list below).

The rating actions follow our revision of our institutional framework assessment for New Zealand local councils to very predictable and well balanced from extremely predictable and supportive (see "Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S.," published Feb. 24, 2025).

In our view, the local council sector's revenue is insufficient to fund its growing expenditure responsibilities. We are witnessing substantially larger cash deficits and structurally higher debt levels than we have previously seen.

Average deficits after capital accounts breached 20% of total revenue in fiscal 2024. Our forecasts point to these deficits remaining around this level over the next three years. Councils have increased their capital budgets to deliver infrastructure for growth, improve quality, and cover rising costs.

The sector's debt increased significantly since the pandemic. Total tax-supported debt rose to 197% of operating revenue in fiscal 2024. To cater for rising indebtedness in the system, in August 2024 the New Zealand Local Government Funding Agency Ltd. announced changes to its borrowing protocols, including higher debt covenants for "high growth" councils. Increasing the

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debt ceiling will generally be negative for credit quality across the sector.

We also view the policy environment as more volatile than in the past. This reflects factors including the quick passage and repeal of several key laws governing local councils, the cancellation of various Crown grant programs, an increase in unfunded mandates, and recent announcements about infrastructure financing options. These changes can materially affect councils' financial outcomes, making it difficult for S&P Global Ratings and the sector to accurately forecast financial outcomes.

Negative outlooks on four councils and two council-controlled organizations reflect continued downward pressure on the councils' individual credit profiles. We affirmed our ratings on two councils because we observe countervailing improvements in their economic assessments.

Ratings and outlooks on entities affected by the lowering of our institutional framework

Entity	Issuer credit rating (as of March 18, 2025)	Outlook (as of March 18, 2025)	Previous issuer credit rating	Previous outlook
Bay Of Plenty Regional Council	AA-	Stable	AA-	Stable
Christchurch City Council	AA-	Stable	AA	Negative
Christchurch City Holdings Ltd.	AA-	Stable	AA	Negative
Dunedin City Council	AA-	Negative	AA	Negative
Dunedin City Treasury Ltd.	AA-	Negative	AA	Negative
Greater Wellington Regional Council	AA	Negative	AA+	Negative
WRC Holdings Ltd.	AA	Negative	AA+	Negative
Hamilton City Council	A	Stable	A+	Negative
Hastings District Council	A+	Stable	AA-	Negative
Hutt City Council	A+	Stable	AA-	Negative
Kapiti Coast District Council	AA-	Stable	AA	Negative
Marlborough District Council	AA-	Stable	AA	Negative
Nelson City Council	AA-	Stable	AA	Negative
New Plymouth District Council	AA	Stable	AA+	Negative
Palmerston North City Council	AA-	Stable	AA	Negative
Porirua City Council	A+	Stable	AA-	Negative
South Taranaki District Council	AA-	Stable	AA	Negative
Tasman District Council	AA-	Stable	AA	Negative
Taupo District Council	AA	Stable	AA+	Negative
Waimakariri District Council	AA-	Stable	AA	Negative
Wellington City Council	AA-	Negative	AA	Negative

Ratings and outlooks on entities affected by the lowering of our institutional framework (cont.)

Entity	Issuer credit rating (as of March 18, 2025)	Outlook (as of March 18, 2025)	Previous issuer credit rating	Previous outlook
Western Bay Of Plenty District Council	AA	Negative	AA	Negative
Whanganui District Council	AA-	Stable	AA	Negative

Bay of Plenty Regional Council

The stable outlook reflects our view that Bay of Plenty Regional Council's weak budgetary outcomes will improve from fiscal 2026 (ended June 30, 2026) as the council winds down its capital expenditure (capex) and realizes revenue from asset sales.

Downside scenario

We could lower our ratings on Bay of Plenty if the council's budgetary outcomes do not improve and debt remains very high. This could occur if Bay of Plenty drops planned increases in rates revenue, increases capex, or delays asset sales.

Upside scenario

We could raise our ratings on Bay of Plenty if the council's budgetary and debt metrics improve substantially, demonstrated by stronger balances after capital accounts and a lower ratio of debt to operating revenue. This could occur, for example, if lot sales from the council's Rangiuru business park development or a potential sale in the council's shareholding in the Port of Tauranga improve credit metrics structurally.

Christchurch City Council

The stable outlook reflects our view that Christchurch City Council's wealthy economy will help it sustain moderate deficits after capital accounts over the next two years.

Downside scenario

We could lower our ratings on Christchurch if its budgetary outcomes underperform our expectations, resulting in a higher ratio of debt to operating revenue or structurally weaker liquidity coverage.

Upside scenario

We could raise our ratings on Christchurch if we consider its financial management is strengthening and it delivers deficits after capital accounts of less than 5% of total revenue structurally.

Christchurch City Holdings Ltd.

The stable outlook on Christchurch City Holdings Ltd. reflects that on our rating on Christchurch's council.

Downside scenario

We would lower our ratings if we downgrade Christchurch or if we believe Christchurch City Holdings' role or link to the council is weakening.

Upside scenario

We would raise our ratings on the entity if we upgrade Christchurch and we believe Christchurch City Holdings' role for and link to the council remain the same.

Dunedin City Council

The negative outlook reflects our view that Dunedin City Council's budgetary outcomes could underperform our expectations over the next two years, resulting in higher debt and weaker liquidity.

Downside scenario

We could lower our ratings on Dunedin if its deficits after capital accounts do not narrow as we expect. This could drive total tax-supported debt above 240% of operating revenue or interest expenses above 10% of operating revenue. Wider deficits could also drive the council's debt service coverage ratio below 80% structurally.

Upside scenario

We could revise our outlook on Dunedin to stable if the council's fiscal outlook improves broadly in line with our forecasts. Such improvements could stabilize total tax-supported debt and interest expenses as a proportion of operating revenue and ensure the council's debt service coverage ratio is structurally more than 80%.

Dunedin City Treasury Ltd.

The negative outlook reflects that on our rating on Dunedin's council.

Downside scenario

We would lower our ratings if we downgrade Dunedin or if we believe Dunedin City Treasury's role or link to the council is weakening.

Upside scenario

We could revise the rating outlook to stable if we take the same action on Dunedin and we believe Dunedin City Treasury's role for and link to the council remain the same.

Greater Wellington Regional Council

The negative outlook reflects our view that Greater Wellington Regional Council's operating performance could underperform our forecasts over the next two years.

Downside scenario

We could lower our ratings on Greater Wellington if we believe its financial management is weakening. This could occur if the council's operating performance does not improve as we expect.

Upside scenario

We could revise our outlook on Greater Wellington to stable if we believe the council can sustain stronger operating performance in line with our forecasts. Such improvements would lead to a narrowing of the council's overall cash deficits and slow growth in total tax-supported debt as a proportion of operating revenue.

WRC Holdings Ltd.

The negative outlook on WRC Holdings Ltd. reflects that on our rating on Greater Wellington Regional Council.

Downside scenario

We would lower our ratings on WRC Holdings if we were to downgrade Greater Wellington or if we believed WRC Holdings's role or link to the council was weakening.

Upside scenario

We could revise the outlook on WRC Holdings to stable if we were to take the same action on Greater Wellington and we believed WRC Holdings' role for and link to the council remain the same.

Hamilton City Council

The stable outlook reflects our view that Hamilton City Council will maintain its sound liquidity coverage during a period of very weak financial outcomes over the next two years.

Downside scenario

We could lower our ratings on Hamilton if we believe its financial management is weakening. This could occur if deficits after capital accounts or debt rise well beyond our forecasts or if management allows liquidity coverage to weaken during a period of elevated spending.

Upside scenario

We could raise our ratings on Hamilton if deficits after capital accounts are structurally less than 25% of total revenue. This could ease Hamilton's debt and interest burdens.

Hastings District Council

The stable outlook incorporates our view that large increases in Hastings District Council's rates revenue and ongoing extraordinary financial support from the Crown will help to offset very high infrastructure spending over the next two years.

Downside scenario

We could lower our ratings on Hastings if we believe financial management is weakening or if, contrary to our expectation, deficits after capital accounts do not narrow and structurally exceed 25% of total revenue. These scenarios could materialize if Hastings increases its capital spending beyond our expectations.

Upside scenario

We could raise our ratings on Hastings if deficits after capital accounts narrow significantly. This could lower its debt burden and improve its liquidity coverage.

Hutt City Council

The stable outlook reflects our view that Hutt City Council's strong revenue growth will help fund its large infrastructure program and contain its rising debt.

Downside scenario

We could lower our ratings on Hutt if its budgetary outcomes do not improve, resulting in deficits after capital accounts exceeding 25% of total revenue structurally. This could occur if the council increases capex without offsetting revenue growth or if it drops planned increases in rates revenue.

Upside scenario

We could raise our ratings on Hutt if our view of its financial management strengthens. Stronger management could drive better budgetary outcomes, leading to improved liquidity coverage or lower debt as a proportion of operating revenue.

Kapiti Coast District Council

The stable outlook reflects our view that Kapiti Coast District Council's budgetary outcomes will improve over the next two years, supported by large increases in rates revenue and slowing growth in expenses.

Downside scenario

We could lower our ratings on Kapiti if its budgetary forecasts perform below our base case. This could occur if the council drops planned increases in rates or continues to increase capex.

Upside scenario

We could raise our ratings on Kapiti if its deficits after capital accounts narrow. This could lead to a structurally lower ratio of debt to operating revenue and strong liquidity coverage.

Marlborough District Council

The stable outlook reflects our view that Marlborough District Council's strong financial management will remain a key credit strength as the council incurs moderate deficits after capital accounts over the next two years.

Downside scenario

We could lower our ratings on Marlborough if we consider its financial management to be weakening, which could be shown by fiscal outcomes or liquidity coverage deteriorating compared with our forecasts.

Upside scenario

We could raise our ratings on Marlborough if its budgetary outcomes strengthen compared with our expectations. This could drive a fall in debt burden and interest expenses as a ratio of operating revenue and contribute to stronger liquidity coverage.

Nelson City Council

The stable outlook reflects our view that Nelson City Council's deficits after capital accounts will narrow as it completes storm recovery works and increases rates. We expect Nelson to maintain its exceptional liquidity coverage.

Downside scenario

We could lower our ratings on Nelson if operating margins narrow across our forecasts because of lower rate increases than we expect. This could weaken our view of the council's budgetary performance, debt, or liquidity.

Upside scenario

We could raise our ratings on Nelson if its budgetary performance improves substantially, driving its debt much lower than we forecast. Such developments might enhance our view of the council's financial management.

New Plymouth District Council

The stable outlook reflects our expectation that New Plymouth District Council will prudently manage its budgetary performance and debt burden as it increases its capex. Although debt will rise, the council's large investment fund helps sustain a very high level of liquidity.

Downside scenario

We could lower our ratings on New Plymouth if deficits after capital accounts rise. This could occur if the council doesn't implement large property rate increases it has proposed or planned operational savings, or if its capex exceeds our expectations.

Upside scenario

We could raise our ratings on New Plymouth if we see a sustained upturn in its budgetary performance, leading to a declining debt burden.

Palmerston North City Council

The stable outlook reflects our expectation that Palmerston North City Council will maintain debt levels in line with peers' over the next two years. We also expect the council's liquidity coverage to remain sound as it incurs large deficits after capital accounts.

Downside scenario

We could lower our ratings on Palmerston North over the next two years if the council's deficits after capital accounts are larger or more prolonged than we expect, leading to much higher debt levels or weaker liquidity coverage. This could eventuate if, for example, Palmerston North allows a large uptick in capex without an accompanying increase in revenue. Such a scenario could also lead us to reassess our view of the council's strong financial management.

Upside scenario

We could raise our ratings on Palmerston North over the next two years if the council's financial metrics improve significantly relative to our forecasts, for example through much narrower deficits after capital accounts and stronger liquidity.

Porirua City Council

The stable outlook reflects our view that Porirua City Council's strong financial management will keep its deficits after capital accounts within our forecasts over the next two years as the council works through a large backlog of infrastructure.

Downside scenario

We could lower our ratings on Porirua if we believe its financial management is weakening. This could occur if property rates do not increase as much as we expect or capex continues to increase beyond our forecasts. This could result in deficits widening beyond 25% of total revenue structurally.

Upside scenario

We could raise our ratings on Porirua if its deficits after capital accounts narrow significantly, leading to lower debt and improving liquidity coverage.

South Taranaki District Council

The stable outlook reflects our view that South Taranaki District Council's very strong liquidity and budgetary flexibility will continue to counterbalance its high gross debt. We expect elevated capex to lead to sizable deficits after capital accounts.

Downside scenario

We could lower our ratings on South Taranaki if its deficits after capital accounts widen or are more prolonged than we expect, causing them to remain structurally more than 25% of total revenue.

Upside scenario

We could raise our ratings on South Taranaki if budgetary performance improved substantially, with lower deficits after capital accounts reducing its debt burden.

Tasman District Council

The stable outlook reflects our view that Tasman District Council will rein in deficits after capital accounts and stabilize its debt burden as capex moderates following completion of construction of the Waimea Community Dam.

Downside scenario

We could lower our ratings on Tasman if its financial outcomes are weaker than we forecast. This could lead to larger borrowing requirements, driving debt higher and liquidity lower.

Upside scenario

We could raise our ratings on Tasman if its budgetary performance improves, resulting in substantially lower debt than we forecast. Such developments might enhance our view of the council's financial management.

Taupo District Council

The stable outlook reflects our expectation that Taupo District Council's wider deficits after capital accounts will moderate and the council's strong management will contain its debt levels and ensure liquidity remains ample.

Downside scenario

We could lower our ratings on Taupo over the next two years if the council's financial management weakens. This could occur if the council keeps capex elevated without offsetting it with increases in revenue, driving the budget into persistently large deficits after capital accounts. This could, in turn, push debt and interest expenses higher.

Upside scenario

We could raise our ratings on Taupo over the next two years if the council's financial metrics improve substantially, with sustained surpluses resulting in debt falling considerably below our forecasts.

Waimakariri District Council

The stable outlook reflects Waimakariri District Council's moderate deficits after capital accounts and relatively steady debt burden.

Downside scenario

We could lower our ratings on Waimakariri if the council's deficits after capital accounts are larger or more prolonged than we expect, resulting in a persistent rise in its debt burden. This could occur, for example, if the council adds to its infrastructure spending pipeline without accompanying revenue increases.

Upside scenario

We could raise our ratings on Waimakariri if we observe a sustained upturn in its budgetary performance, leading to a declining debt burden or stronger liquidity coverage.

Wellington City Council

The negative outlook reflects our view that Wellington City Council's financial management could weaken, particularly if budgetary outcomes underperform our expectations over the next two

years.

Downside scenario

We could lower our ratings on Wellington City if we consider the council's financial management is weakening. This could occur if large deficits after capital accounts persist because revenue or expenses do not meet our forecasts. This could also weaken the council's liquidity coverage.

Upside scenario

We could revise our outlook on Wellington City to stable if its budgetary outcomes improve over the next two years, leading to stabilization of its debt as a proportion of operating revenue.

Western Bay of Plenty District Council

The negative outlook reflects our view that Western Bay of Plenty District Council's fiscal and debt metrics may underperform our forecasts or liquidity may weaken.

Downside scenario

We could lower our ratings on Western Bay if its budgetary performance weakens or debt and interest burdens rise because the council displays less ability to raise revenue or reduce expenditure than we believe it can. This could pressure the council's liquidity coverage.

Upside scenario

We could revise our ratings on Western Bay to stable if its budgetary performance is better than we forecast, reducing the council's debt and interest expense trajectory. This could cause us to reassess our view of the council's financial management.

Whanganui District Council

The stable outlook reflects our view that Whanganui District Council's financial position will remain a key strength and limit the size of its deficits after capital accounts.

Downside scenario

We could lower our ratings on Whanganui if management deviates from its financial strategy, resulting in larger and persistent deficits after capital accounts. This could also weaken liquidity coverage.

Upside scenario

We could raise our ratings on Whanganui if the council were to achieve consistently strong financial outcomes. A sustained upturn in budgetary performance driving its debt burden substantially lower than we forecast could demonstrate this.

Webinar

S&P Global Ratings will host a webinar and Q&A at 2pm Auckland time, on Thursday, March 20, 2025, to discuss today's rating actions. Details on the webcast will shortly be available on the following weblink:

<https://event.on24.com/wcc/r/4901525/CCEAE0B2F734FD7D445565A406FAC6D4?partnerref=MR>

New Zealand Councils--Ratings score snapshot

Entity	Institutional framework	Economy	Financial management	Budgetary performance	Liquidity	Debt burden	Stand-alone credit profile	Long-term issuer credit rating	Outlook
Bay Of Plenty Regional Council	2	2	2	4	1	5	aa-	AA-	Stable
Christchurch City Council	2	1	3	3	2	4	aa-	AA-	Stable
Dunedin City Council	2	2	2	4	2	4	aa-	AA-	Negative
Greater Wellington Regional Council	2	1	1	4	1	4	aa	AA	Negative
Hamilton City Council	2	1	3	4	2	5	a	A	Stable
Hastings District Council	2	2	2	4	2	5	a+	A+	Stable
Hutt City Council	2	2	3	4	2	4	a+	A+	Stable
Kapiti Coast District Council	2	2	2	3	2	5	aa-	AA-	Stable
Marlborough District Council	2	2	1	3	2	4	aa-	AA-	Stable
Nelson City Council	2	2	2	4	1	4	aa-	AA-	Stable
New Plymouth District Council	2	2	2	3	1	4	aa	AA	Stable
Palmerston North City Council	2	2	2	3	2	4	aa-	AA-	Stable
Porirua City Council	2	2	2	4	2	5	a+	A+	Stable

New Zealand Councils--Ratings score snapshot (cont.)

Entity	Institutional framework	Economy	Financial management	Budgetary performance	Liquidity	Debt burden	Stand-alone credit profile	Long-term issuer credit rating	Outlook
South Taranaki District Council	2	3	2	3	1	4	aa-	AA-	Stable
Tasman District Council	2	2	2	3	1	4	aa-	AA-	Stable
Taupo District Council	2	2	1	2	1	4	aa	AA	Stable
Waimakariri District Council	2	2	2	3	2	4	aa-	AA-	Stable
Wellington City Council	2	1	2	3	1	5	aa-	AA-	Negative
Western Bay Of Plenty District Council	2	2	2	3	1	4	aa	AA	Negative
Whanganui District Council	2	3	2	3	1	4	aa-	AA-	Stable

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings, March 17, 2025
- New Zealand Councils' Institutional Framework Lowered On Rising Debt, Feb. 26, 2025
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Feb. 24, 2025

Ratings List

***** Bay Of Plenty Regional Council *****

Ratings Affirmed

Bay Of Plenty Regional Council

ssuer Credit Rating	AA-/Stable/A-1+
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***** Christchurch City Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

To	From
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Christchurch City Council

Christchurch City Holdings Ltd.

ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+
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***** Dunedin City Council *****

Downgraded; Ratings Affirmed

To	From
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Dunedin City Council

Dunedin City Treasury Ltd.

ssuer Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
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***** Greater Wellington Regional Council *****

Downgraded; Ratings Affirmed

To	From
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Greater Wellington Regional Council

ssuer Credit Rating	AA/Negative/A-1+	AA+/Negative/A-1+
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WRC Holdings Ltd.

ssuer Credit Rating

Local Currency	AA/Negative/A-1+	AA+/Negative/A-1+
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***** Hamilton City Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

To	From
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Hamilton City Council

ssuer Credit Rating	A/Stable/A-1	A+/Negative/A-1
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***** Hastings District Council *****

Downgraded; CreditWatch/Outlook Action

To	From
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Hastings District Council

ssuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
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Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment

***** Hutt City Council *****

Downgraded; CreditWatch/Outlook Action

	To	From
Hutt City Council		
ssuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+

***** Kapiti Coast District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Kapiti Coast District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Marlborough District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Marlborough District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Nelson City Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Nelson City Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** New Plymouth District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
New Plymouth District Council		
ssuer Credit Rating	AA/Stable/A-1+	AA+/Negative/A-1+

***** Palmerston North City Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Palmerston North City Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Porirua City Council *****

Downgraded; CreditWatch/Outlook Action

	To	From
Porirua City Council		
ssuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+

Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment

***** South Taranaki District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
South Taranaki District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Tasman District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Tasman District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Taupo District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Taupo District Council		
ssuer Credit Rating	AA/Stable/A-1+	AA+/Negative/A-1+

***** Waimakariri District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Waimakariri District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

***** Wellington City Council *****

Downgraded; Ratings Affirmed

	To	From
Wellington City Council		
ssuer Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+

***** Western Bay of Plenty District Council *****

Ratings Affirmed

Western Bay of Plenty District Council

ssuer Credit Rating	AA/Negative/A-1+
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***** Whanganui District Council *****

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Whanganui District Council		
ssuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

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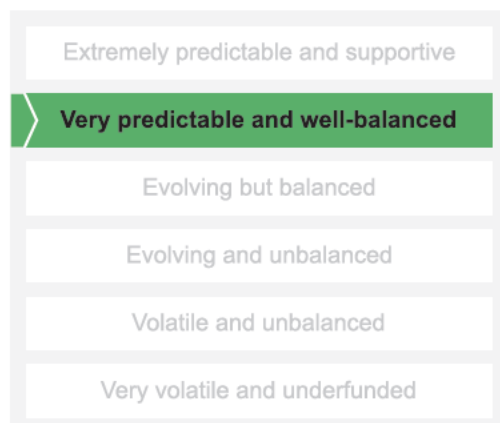
Institutional Framework Assessment:

New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings

March 17, 2025

This report does not constitute a rating action.

Institutional Framework Assessment:



Trend:



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Credit Highlights

Overview

Key strengths

High transparency and accountability, with strong disclosure and reporting standards

Predictable system with changes generally subject to consultation

Key risks

Large infrastructure responsibilities, which weigh on councils' revenue and expenditure balance compared with other systems

Growing uncertainty as to how policy settings will evolve and affect the sector's long-term financial sustainability

The New Zealand local government sector's ability and capacity to raise revenue isn't keeping pace with its growing operating and capital expenditure needs. This imbalance has led to the sector becoming highly indebted. We believe the sector has a bigger imbalance between revenue

and expenditure than in the past. We also think upcoming water reforms ("Local Water Done Well") will have mixed credit implications and aren't likely to result in substantial debt relief. In some cases, options available to councils could exacerbate widening revenue and expenditure imbalances and sectorwide debt. Therefore, we have lowered our institutional framework assessment to very predictable and well balanced from extremely predictable and supportive. We project sectorwide debt to be structurally higher than in other jurisdictions with the highest institutional assessment.

The central government's Local Water Done Well reforms and associated laws give councils various options to implement over the next three years.

Some options (e.g., formation of regional water utilities) could help alleviate financial pressure on individual councils but are likely to weigh on councils' contingent liabilities, particularly if the utilities are highly indebted. Other options (e.g., councils maintaining the status quo or creating wholly controlled subsidiaries to house their water services) are unlikely to alleviate financial pressure and in some cases could exacerbate it.

We forecast elevated deficits after capital accounts, averaging about 20% of revenue, over the next three years.

Updated budgetary forecasts suggest deficits after capital accounts will be much greater than we previously forecast. Over recent years, councils have increased their capital budgets to deliver infrastructure for growth, improve quality, and cover rising costs. The sectorwide deficit in fiscal 2024 (ended June 30, 2024) was exceptionally large at about 21% of total revenue. This was much higher than previous budget documents indicated.

Lifting self-imposed debt ceilings will generally be negative for credit quality.

Local government debt has increased significantly in recent years, with the sector's total tax-supported debt rising to 197% of operating revenue in fiscal 2024. To cater for rising indebtedness in the system, the New Zealand Local Government Funding Agency Ltd. (LGFA) in August 2024 changed its borrowing protocols. LGFA can provide debt financing to new council-controlled water entities (that parent councils financially backstop) at potentially much higher leverage ratios than apply to councils. Additionally, LGFA's board will allow "high growth" councils a covenant of net debt to total revenue of up to 350%, up from 280%.

Trend: Stable

The mismatch between the capacity to raise revenue and the need to fund growing expenditure will remain wide. As a result, sectorwide debt levels will be much higher than in many other developed country jurisdictions. Further policy settings will continue to evolve in ways that have less predictable effects on council credit quality than in the past. Counterbalancing this are the sector's enduring strengths, including high levels of transparency and accountability and strong revenue collection powers.

Downside

Further increases in expenditure responsibilities without an accompanying increase in revenue-raising capacity, or limits on the ability to raise revenue, could accelerate growth in local government debt and further weaken our assessment of the system's revenue and expenditure balance.

Upside

For New Zealand to improve its institutional framework, the local government sector needs to sustainably address the gap in its revenue and expenditure, which would allow councils to reduce sectorwide debt. This could occur if the relationship between central and local government changes, particularly regarding funding mechanisms and spending rules, leading to a sustainable improvement in budgetary results for local councils. We view this as unlikely in the current policy environment.

Predictability Of The Framework

Laws governing New Zealand's local government system are generally predictable and supportive

The system reflects the New Zealand sovereign's historically stable policy environment. Reforms and policy changes usually evolve over long time frames and undergo rigorous consultation and development to ensure their suitability.

However, we see a more volatile policy environment than previously. This reflects the quick passage and accelerated repeal of the former government's water-related and resource management legislation, cancellation of various Crown grant programs coupled with a rise in unfunded mandates, and recent announcements surrounding infrastructure financing solutions. These changes can materially impact council financial outcomes, making it difficult for S&P Global Ratings and individual councils to produce accurate financial forecasts.

Financial and credit effects of major water reforms are uncertain. The Crown introduced its "Local Water Done Well" reforms in February 2024 after repealing the former government's policies. The legislation gives councils several options to implement by July 1, 2028. These measures are likely to have mixed effects on finances. Several may elevate some financial pressure on councils; others may not significantly affect their financial positions. Additionally, when combined with changes in the LGFA's borrowing protocols, we see the measures offering little advantage for the sector's indebtedness. Changes to major policies have also created difficulties for local government budgeting and reporting, with statutory deadlines and requirements easing in recent years (see Transparency and Accountability for details).

Uncertainty isn't restricted to water policy. The Resource Management Act (RMA), which governs a national strategy for how land and natural resources are used, has also undergone changes aimed at improving the system. The Crown has a three-phase approach to reforming the RMA. Phase 1, in December 2023, was to repeal the former government's RMA reforms, which were only enacted in August 2023. The Crown is consulting on the second phase, which introduces a raft of "quick fixes," before implementing major updates in 2026 as part of the third phase.

The policy environment was previously relatively stable. The last major reforms occurred in the late 1980s and early 1990s when the Crown amalgamated 850 public entities into 86 local governments. Other reforms of note include the forced amalgamation of Auckland's eight individual councils in 2010. The Auckland amalgamation appears to have improved the region's historically fragmented administration and planning. It was flagged well in advance with a Royal

Commission established in 2007 that reported its findings in 2009. After several public discussions and consultations, parliament passed the amalgamation legislation in late 2009. There are now 78 local governments in New Zealand.

New Zealand local governments are established under the Crown's Local Government Act, rather than the Constitution as in some international peers. This gives the sector less ability to withstand unwanted changes than its peers. Local governments have some ability to soften negative consequences of reform, individually and through Local Government New Zealand, the local government association of New Zealand. The Crown can consult with the association or individual local governments, but local governments have no legislative power to reject reforms or demand additional funding to cover new mandates.

The water reform process demonstrated local councils' ability to influence but not prevent Crown policy. Local councils' suggestions appear to drive key principles of Local Water Done Well, including criticisms raised by many around the former government's legislation. These include issues such as water quality and regulation, ownership and control of water assets, and co-governance of water services. Local Water Done Well has ceded more control to local governments, allowing councils and ratepayers to adopt their own option to manage water assets. The sector was also able to influence some aspects of the former government's "Affordable Waters" ("Three Waters") reform program to increase local influence and stagger the implementation timeline. Ultimately, though, councils must implement Crown policies because they are not protected by a constitution.

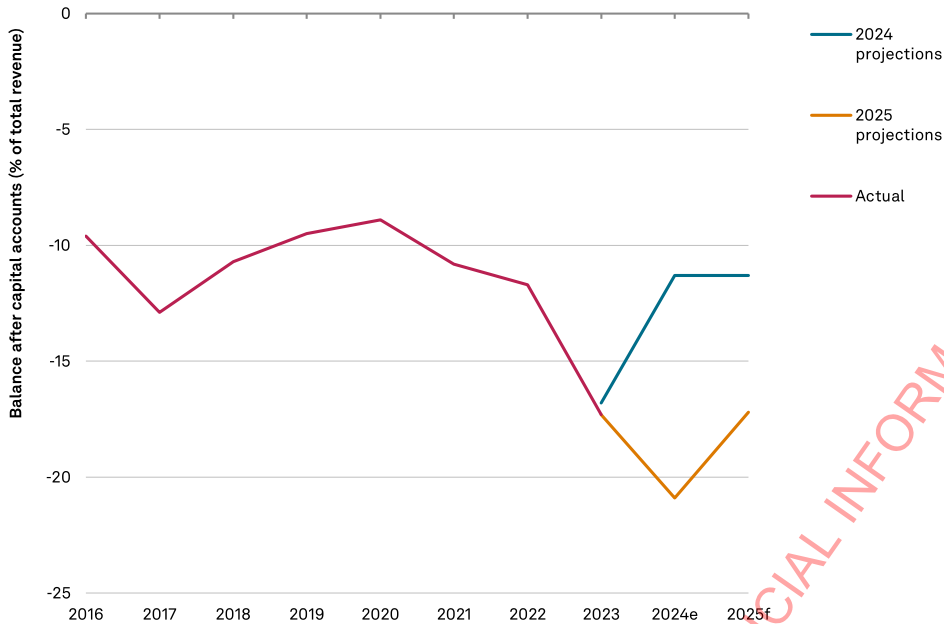
Revenue And Expenditure Balance

Cash deficits and debt are much higher than previously expected

This indicates local councils don't have the capacity to raise enough revenue to fund growing expenditure, despite having strong revenue and expenditure autonomy. Affordability concerns have resulted in increases in property rates in line with, or below, inflation in recent years (prior to large increases in fiscal 2024), during a period of record capital spending and rising interest costs, weighing on budgetary deficits across the sector. We forecast deficits after capital accounts across the sector to be about 21% of total revenue in 2024 and debt at 197% of operating revenue. These outcomes are much worse than we anticipated in our last review. They are also much worse than in other comparable systems.

Chart 1

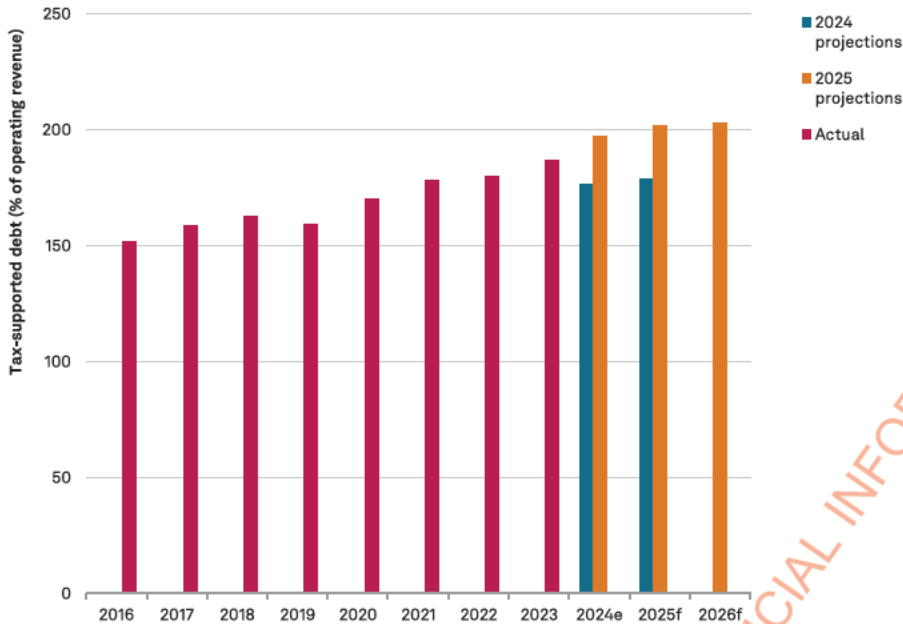
Deficits after capital accounts are much weaker than previously expected



New Zealand fiscal year ends June 30. e--Estimate. f--Forecast. Source: S&P Global Ratings.
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Chart 2

Sectorwide debt is growing rapidly



New Zealand fiscal year ends June 30. a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

General property rates are New Zealand local governments' key source of income, but increasing them significantly can be difficult. While individual local governments set rates and Crown policies do not limit them, there can be affordability concerns for ratepayers. This was evident in fiscal 2024, when many councils imposed double-digit rate increases for the first time in years. Local governments have extraordinarily strong abilities to collect rates because they can recover unpaid rates ahead of residents' mortgages (i.e., local governments outrank banks and finance companies) and can seek court approval to sell properties to claim unpaid rates. These key strengths underpin New Zealand local councils' creditworthiness.

Rates are a stable revenue source and allow councils to post solid cash operating surpluses, even in major economic downturns. Operating margins in New Zealand have been a historic strength and have allowed councils to reduce debt quickly during consolidation phases. Unlike many peer systems, in New Zealand the Crown, not councils, is responsible for major operating expenditure for health, education, and social welfare. However, in fiscal 2024, several councils plunged into operating deficit for the first time in decades despite large rate increases, with expenses rising much more than anticipated. Interest expenses, for example, can be materially higher in New Zealand than in other jurisdictions. Higher interest expenses are weighing on operating margins as debt rises.

New Zealand local governments have large infrastructure responsibilities. Moreover, they consider using debt to share the cost of constructing infrastructure over generations that make use of or benefit from them. This is commonly referred to as "intergenerational equity." In other words, for a piece of infrastructure that will last 30-50 years, local governments borrow to fund the upfront cost of construction and charge ratepayers over the next few decades to repay the debt. This approach means New Zealand's local government sector debt is higher than that of all peers.

We estimate the sector's debt was about NZ\$33 billion in 2024, up significantly from NZ\$20 billion in 2020). We expect sectorwide debt to increase as councils' operating expenses rise rapidly and councils continue to expand infrastructure plans. Capital expenditure on water assets represents around half of total infrastructure spending, which shows the significance of water reforms.

There is no legislative limit on debt. All local governments have internal limits published in their long-term plans, annual plans, and annual reports that Audit New Zealand audits to ensure financial sustainability. Debt limits, however, are not binding and have eased in the face of rising debt. Debt limits and liquidity covenants exist for local governments borrowing from the LGFA, which as of December 2024 total 77 of the sector's 78 local governments and 90% of sectorwide debt. These limits are relatively relaxed, in our view. Furthermore, the LGFA recently announced it will entertain increasing its net debt covenant for "high growth" councils to take on more debt for growth infrastructure. This is the second such change since the pandemic; in 2020, the LGFA raised its net debt covenant to 280%-300% of total revenue, from a previous limit of 250%.

New Zealand's fiscal policy framework focuses on accruals, not cash deficits. Local governments are generally required to balance their budgets on an accrual basis and to ensure that debt is not used to fund operating expenditure or financial investment (termed the "golden rule" of fiscal policy). The framework limits debt to capital investment and requires depreciation of capital to be expensed in accrual financial statements. The Crown requires a local government provide a sound rationale if it chooses to run an accrual operating deficit. In 2024, a few local governments ran small accrual operating deficits. This framework, however, doesn't limit the size of the overall cash deficit when including capital expenditure.

There are only two tiers of government in New Zealand, with the Crown reluctant to fund local infrastructure. Local governments are responsible for a substantial proportion of infrastructure, such as road development and transportation, and three waters (drinking water, wastewater, and storm water). The Crown sometimes provides capital grants for large infrastructure projects, and it provides ongoing subsidies for road renewal and maintenance. In total, these grants amount to about 15% of local councils' total revenue. There is no system of fiscal equalization.

New Zealand has had no known local government default. There is no explicit guarantee from the Crown for New Zealand's local governments. However, we would expect local councils to receive support long before a default scenario materializes. This is due to the Crown's close oversight of local governments, the system's transparency, and mechanisms available to the Crown to intervene in a local council's operations. The Crown has the power to dismiss a local government and call an election based on its inability to properly govern, poor financial management, or corruption. Other possible measures include requesting information from a local government, or appointing a Crown review team, a Crown Observer, a Crown Manager, or a Commission.

The Crown has shown it is willing to use these powers when needed. It has intervened in several local councils in recent years, such as:

- Appointing a Crown Observer to Wellington City Council in October 2024 to assist the council with financial challenges and rewrite its 2024-2034 long-term plan.
- Appointing a Crown Manager to Hawke's Bay Regional and Wairoa District councils in August 2024 to deliver flood protection works after severe floods.
- Appointing a Commission to act in place of elected representatives at Tauranga City Council in February 2021. This followed an independent review identifying significant governance problems and infrastructure and funding challenges. Local government elections occurred in July 2024, replacing the Commission.
- Appointing a Crown Observer to Christchurch City Council in January 2012 to assist the council after several major earthquakes. It also appointed a Crown Manager in July 2013 to ensure the council regained its building consent accreditation, which was withdrawn by International Accreditation New Zealand (the council regained accreditation in 2015).
- Appointing a Commission to Kaipara District Council in August 2012 that replaced elected councillors and appointing a Crown Manager in 2016 and 2017 after various legal issues.
- Replacing councillors from Environment Canterbury, a regional council, with a Commission in May 2010.

The Crown has also demonstrated some willingness to support councils in selected

circumstances. The Crown has offered ad hoc contestable grants or concessional loans through the Housing Infrastructure Fund and Crown Infrastructure Partners. To further alleviate pressure on borrowing needs, the Crown passed the Infrastructure Funding and Financing (IFF) Act, which allows special purpose vehicles to raise private debt for large infrastructure projects in a way that is ringfenced from council balance sheets. As of December 2024, Tauranga City Council and Wellington City Council have used the IFF to fund large infrastructure projects.

The Crown has cost-sharing arrangements for natural disasters. The Crown pledged 60% of the repair and replacement of Christchurch City Council's essential infrastructure after several severe earthquakes in 2010-2011. The Crown offered a NZ\$275 million emergency financial support package to councils affected by Cyclone Gabrielle in May 2023, covering a considerable proportion of emergency costs for affected councils. In addition, Marlborough District Council secured Crown funding to cover 95% of the cost of repairing storm-damaged roads after two heavy floods in July 2021 and August 2022. The Crown and individual councils each fund 25% of the repair cost of properties that suffer from leaks or moisture damage. We also see an extremely high likelihood of the Crown providing extraordinary support to the LGFA, which raises debt on behalf of local councils, in a distress scenario.

New Zealand's revenue framework could undergo further changes. In late February 2025, the Crown announced a plan for councils to charge infrastructure levies, which would be regulated and replace their existing system of "development contributions." The Crown also committed to make the IFF more effective and increase the flexibility of targeted rates. It is unclear how, or if, these changes would improve structural imbalances inherent within New Zealand's local council system. In December 2024, the Crown also revealed a plan to start benchmarking councils' financial performance and investigate the possibility of capping rates. We await further details of these plans.

Transparency And Accountability

New Zealand's local government system is highly transparent compared with international peers'

Minimum disclosure standards are high by international comparison. Governing laws set out in the Local Government Act 2002 impose comprehensive requirements for public consultation and financial planning and reporting. There is also a clear separation between responsibilities and roles of elected officials and their administrations.

Financial and nonfinancial reporting requirements enhance New Zealand local governments' transparency and accountability. Requirements include public reporting of audited consolidated accounts, in accrual and cash terms, within specified time limits. These reports cover all council-controlled entities, including majority and minority holdings. Additionally, monthly or quarterly reports are also available via local government websites, as are agendas and minutes of most local government meetings. Crown reforms over time have increased disclosure and transparency by introducing funding impact statements and disclosure of risk-management strategies.

The Local Government Act requires that local governments develop long-term 10-year plans updated every three years. However, these have become less reliable in recent years, with major reforms potentially affecting council financial forecasts and annual revisions of infrastructure budgets. Long-term plans supplement the annual planning process with which they are integrated and reflect longer-term asset-management intentions. The system also requires local governments consult the public on these documents. All local governments also must develop and publish 30-year infrastructure strategies to identify future infrastructure needs and identify options, including asset management plans, to address them. These extensive plans, even for the smallest local governments, are an indication of the sector's long-term capital planning and budgeting capabilities. The Crown granted an extension to the June 30, 2024, statutory deadline for the adoption of upcoming 2024-2034 long-term plans. This followed changes in Crown policies regarding water reform.

A shortage of auditors has affected councils' abilities to prepare audited financial statements in recent years. The central government passed legislation in 2020 extending statutory reporting timeframes by two months for Crown entities, local authorities, and council-controlled organizations with June 30 balance dates. In recent years, auditor shortages, challenging immigration settings, staff turnover, and higher sick leave (in audit firms and in public organizations related to COVID-19) have caused several councils to adopt their annual reports more than four months after the fiscal year ended, breaching the statutory deadline. However, we expect this situation will improve over the next one to two years.

The Local Government Act requires local governments to prepare pre-election reports. The reports, which provide information about the issues a local government faces, promote public discussion and help voters make more informed choices. The reports provide details on a local government's financial performance for the three years before the election; financial plans and projects for the next three years; and statements comparing rates, rate increases, borrowing, and returns on investments, with the limits and targets set in the financial strategy.

Local governments also publish financial prudence benchmarking in their annual reports. This shows a local government's financial performance in relation to various benchmarks to assess whether it is prudently managing its revenue, expenses, assets, liabilities, and general financial dealings.

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Related Research

- New Zealand Councils' Institutional Framework Lowered On Rising Debt, Feb. 25, 2025
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Feb. 24, 2025
- New Zealand, Oct. 16, 2024

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