# Bond Case Briefs

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## Moody's: Advantages of Century Bonds to Finance Infrastructure Come at a Cost.

New York, October 08, 2014 — Bonds with very long maturities of up to a 100 years—century bonds—can have an appeal for infrastructure bond issuers, says Moody's Investors Service, because they are able to match the long-term service lives of the assets they are financing to the long-term maturities of the debt, deferring rate increases and capital cost recovery for generations. However, these advantages carry some credit risks.

"The issuance of ultra long-dated debt such as century bonds by infrastructure issuers defers rate increases or cost reductions in the near- to medium-term, which runs counter to a key credit strength of infrastructure enterprises: the ability and willingness to raise rates to recover costs of operating and investing in the system," says Moody's Vice President Nick Samuels in the new report, "Century Bonds Create Opportunities and Challenges for US Public Infrastructure Issuers."

Century bonds have become a topic of discussion among infrastructure debt issuers and investors after District of Columbia Water and Sewer Authority (DC Water) sold a $350 million century bond this summer to help finance a part of a $2.6 billion consent decree mandated Clean Rivers Project.

From an operating perspective, a century bond issuer gains flexibility by deferring debt service costs far into the future. However, adding century bonds to a debt portfolio can lessen long-term financial flexibility and raise long-run costs.

Compared to a traditional 30-35 year amortization for an infrastructure issuer, a 100-year structure more than triples the total debt service costs.

The water tunnels DC Water was financing are designed to have a useful life of at least 100 years. The authority sought to capitalize on this span and reduce its near-term financing costs by issuing the century bonds, which pay interest only for 90 years and then sinking fund deposits in the final 10 years. Ample investor demand allowed DC Water to both increase the deal's size from the planned $300 million and reduce the bonds' yield from its original assumptions.

This had been the first century bond deal in infrastructure since Port Authority of New York and New Jersey in 1994.

Recently, the Cleveland Clinic Health System issued a $400 million century bond, a first in the not-for-profit healthcare sector. Several higher education institutions with strong national reputations have also issued century bonds, and they have also been issued by several corporate issuers.

For more information, Moody's research subscribers can access the report at

http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM176188.