

09 SEP 2021

Fitch Rates New York City Muni Water Finance Auth's Revs 'AA+'; Outlook Stable

Fitch Ratings - New York - 09 Sep 2021: Fitch Ratings has assigned a 'AA+' rating to the following New York City Municipal Water Finance Authority's (NYW, or the authority) revenue bonds:

--Approximately \$545 million water and sewer system second general resolution (SGR) revenue bonds fiscal 2022 subseries BB-1;

--Approximately \$88 million water and sewer system SGR revenue bonds fiscal 2022 subseries BB-2.

The fiscal 2022 series BB bonds are scheduled to sell the week of September 13th. Proceeds of the bonds will be used to refund certain outstanding SGR bonds and pay costs of issuance.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The 'AA+' rating reflects the combined credit quality of the authority and the New York City Water Board (the water board), as well as the authority's role as an issuer of revenue bonds on behalf and in support of the New York City (the city or NYC) water and sewer system (the system). The rating further reflects the benefit of the gross pledge of system revenues to debt service before system operating expenses and any lease payment to the city.

The combined credit quality and financial profile are very strong and assessed at 'aa' in the context of very strong revenue defensibility and the system's very low operating risk profile. Fitch considers rates affordable for most customers, and operating costs have been generally stable. Fiscal 2021 costs included a lease payment to the city, which is not included in future years through at least fiscal 2025. The service area exhibits strong economic diversity and resiliency, although it is experiencing some pressure as a result of the coronavirus pandemic and related containment measures.

The financial profile reflects the authority's low leverage ratio, as measured by net adjusted debt to adjusted funds available for debt service (FADS) on a gross revenue basis, which has averaged 7.3x since fiscal 2016. Leverage is anticipated to remain above 7.0x given the system's significant and largely debt-funded capital improvement program (CIP).

The authority's current projections incorporate a continuing impact of the coronavirus pandemic and related containment measures on a moderating basis through fiscal 2024. The approved fiscal 2022 rate increase, and projected rate increases for fiscal years 2023 through 2025 are more modest than previously anticipated. Fiscal 2022 expenditures, including lower debt service and excluding the city lease payment, accommodate the lower revenue base.

The authority reports the lien sale included in fiscal 2022 has been postponed. Fitch does not currently anticipate a material impact on fiscal 2022 financial performance, especially given fiscal 2021 revenues are projected to be 5.4% higher than anticipated. Overall, Fitch expects the system's consistent trend of strong annual surplus revenues and modest anticipated annual rate increases should provide the authority with substantial financial flexibility and capacity to maintain rating stability as the impact of the pandemic moderates.

CREDIT PROFILE

The authority was created as a public benefit corporation in 1984 in order to issue bonds, notes and other financing instruments to fund capital improvements to the NYC system. Fitch considers the authority to be an issuer that benefits from a contractual framework in which revenues and costs are largely balanced. The water board leases the system from the city and is responsible for setting, levying and collecting customer rates and system revenues to transfer to the authority for bond repayment and operations and maintenance (O&M) reimbursement.

Further, the authority has the power to require the water board to charge and collect sufficient rates to pay the costs of operating and financing the system, as well as to enforce that the city adequately operate and maintain the system. The authority may not file for bankruptcy without state legislative approval and Fitch views the authority as bankruptcy-remote from the city. Fitch also views the water board as bankruptcy-remote from the city.

The system is the country's largest municipally owned water and sewer utility. It is operated by the NYC Department of Environmental Protection (DEP, a city agency) and provides retail water and sewer service to 835,700 customers and over 8.8 million residents within the city. It also provides wholesale service to an additional one million residents in communities north of the city. The service area includes over 300 square miles across NYC's five boroughs (the Bronx, Brooklyn, Manhattan, Queens and Staten Island) as well as communities within Westchester, Putnam, Orange and Ulster counties.

The DEP performs day-to-day system O&M and is responsible for executing the system's multi-billion-dollar capital program. Capital and maintenance needs are expected to remain large over time given the demand placed on system assets in an expansive urban setting.

The water system provides an average of approximately 1 billion gallons per day (bgd) from three upstate aqueducts that span as far as 125 miles north of the city. Demand has steadily declined over time due to water efficiency measures, but has represented a stable 75% of available yield from three city-owned upstate reservoir systems. The sewer system collects and treats an average of approximately 1.2bgd of wastewater at fourteen in-city wastewater treatment plants for virtually the entire city. Average annual flows approximate 70% of the 1,805mgd treatment capacity.

Structural and Legal Protections

Fitch believes NYW bondholders benefit from strong legal protections that include the statutorily defined nature of the authority, bankruptcy remoteness and the gross pledge of system revenues.

While these layers of legal protection do not completely shield FGR and SGR bondholders from the operational risks of the city's massive water and sewer enterprise, they limit diversion of revenues to general city operations.

A large portion of annual debt service obligations is consistently funded well in advance of scheduled payment dates by the system's revenue fund, which consists of both current year revenues and carry-forward surplus cash. The revenue fund contained \$1.081 billion as of FYE 2020, enough to pre-pay roughly two thirds of fiscal 2021 combined gross FGR and SGR debt service. At FYE 2021, the anticipated carry forward included in the authority's forecast is \$986.2 million in surplus revenues, or over 60% of projected fiscal 2022 combined debt service. Based on unaudited FYE 2021 results, the carry forward is \$94 million higher than such anticipated amount.

Only after monthly required deposits under the SGR are satisfied and held by NYW's trustee will funds be released for other purposes, including the cash-defeasance of additional debt service and to reimburse the city for O&M expenses.

KEY RATING DRIVERS

Revenue Defensibility 'aa'

Very Strong Rate Flexibility, Economically Diverse Service Area

Revenue defensibility is supported by the system's role as an essential service provider to an exceptionally large, diverse and economically important service area. The water board has independent rate-setting authority, and rates are considered affordable for over three quarters of the NYC service area population. Bondholders are further afforded a gross lien on system revenues and strong legal protections.

Operating Risks 'aa'

Very Low Operating Cost Burden, Elevated Capital Needs

The authority reimburses the system for operating expenses, which are very low relative to system volume and are expected to remain stable for the foreseeable future. Sustained and elevated capital investment funded by the authority and executed by the city has resulted in a low life cycle ratio that should also remain stable given the amount of planned capital spending.

Financial Profile 'aa'

Generally Stable Leverage Expected to Continue

The authority's leverage ratio, measured as net adjusted debt to adjusted FADS on a gross lien basis, was 7.6x in fiscal 2020 and is representative of historical and expected future performance. Ongoing rate adjustments and the resumption of normal consumption levels over the next five years should allow FADS to increase at a rate commensurate with increasing carrying costs, and should keep leverage consistent with the current assessment.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A sustained decline in leverage to below 5x in Fitch's base and stress cases within the context of current revenue defensibility and operating risks assessments.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--An increase in the authority's leverage ratio that trends above 8x through Fitch's base and stress cases;

--Sustained weakness in FADS stemming from greater than anticipated economic weakness without corresponding rate adjustments;

--A delay in rate-setting that jeopardizes the authority's strong ongoing operating margins;

--Coverage of full obligations that generally falls below 1.0x.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

SECURITY

The fiscal 2022 series BB bonds are special obligations of NYW issued under the SGR and payable solely from and secured by a subordinate lien on gross revenues of NYW. Outstanding water and sewer system FGR bonds are payable solely from and secured by a first lien on gross revenues of NYW. The SGR bonds currently being issued will not have a debt service reserve fund.

For additional information, please see Fitch's Rating Action Commentary dated June 17, 2021

Date of Relevant Committee

16 June 2021

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their

nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
New York City Municipal Water Finance Authority (NY)			

ENTITY/DEBT	RATING		RECOVERY	PRIOR
<ul style="list-style-type: none"> New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues (2nd Lien)/1 LT 	LT	AA+ 	Affirmed	AA+ 

RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



EVOLVING



STABLE



Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria - Effective from February 23, 2021 to September 1, 2021 \(pub.23 Feb 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub.18 Mar 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

New York City Municipal Water Finance Authority (NY) EU Endorsed, UK Endorsed

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