

Rating Action: Moody's assigns Aa1 to NYC Muni Water's second resolution Fiscal 2020 Series AA and Series BB bonds; outlook stable

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New York, June 20, 2019 -- Moody's Investors Service has assigned Aa1 ratings to the New York City Municipal Water Finance Authority's approximately \$450 million Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2020 Series AA and approximately \$400 million Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2020 Series BB. The authority plans to price the Series AA bonds on June 25, 2019 and the Series BB bonds on July 10, 2019. The outlook is stable.

RATINGS RATIONALE

The Aa1 reflects a strong claim on revenue generated by an essential service utility in a vast and healthy metropolitan area. The rating also incorporates the healthy liquidity of the water and sewer system, and strong rate management by the New York City Water Board. Further considered in the rating is debt service coverage that is very strong on a bond ordinance basis, but narrow on a net revenue basis especially relative to highly rated peers. The latter challenge is mitigated by a bondholder-friendly flow of funds and the early set-aside of debt payments.

RATING OUTLOOK

The stable outlook incorporates the expectation that the New York City Water Board will continue to adjust rates, as necessary, to maintain healthy liquidity and sound debt service coverage while generating new revenue in support of system maintenance.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Moderated borrowing or accelerated growth in revenue that brings down the utility's debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Rate adjustments that are not sufficient to increase revenue and hold debt service coverage by net revenue at a level in line with the utility's peers
- A change in regulations that necessitates much more borrowing
- Sustained declines in operating liquidity

LEGAL SECURITY

The authority's bonds are secured by a lien on revenue collected by the New York City water and sewer system. The authority holds both a statutory and contractual lien on the system's revenue. Only after the authority has set aside sufficient revenue for debt service on the authority's bonds and its own modest operating expenses does it release the remainder to the city to operate the system.

The Fiscal 2020 Series AA and Series BB bonds, like all outstanding second resolution bonds, are secured by a lien on revenue that is subordinate to debt service on the authority's first resolution bonds. The second resolution bond lien applies to revenue available after the payment of authority operating expenses. These are operating expenses only of the authority and not the water and sewer system as a whole. The State of New York has covenanted by law not to limit or alter the rights of the authority until its obligations to bondholders are met.

USE OF PROCEEDS

The Series AA proceeds will refund certain outstanding second resolution bonds for debt service savings. The Series BB proceeds will finance improvements to the water and sewer system pursuant to the city's capital improvement plan.

PROFILE

New York City's water and sewer system serves a population of approximately 8.5 million in the five boroughs of New York City, a service area of more than 300 square miles. It also provides water to an additional 1 million people in the counties where its water supply facilities are located. The system is notably large: its watershed area is 1.2 million acres; there are 19 water reservoirs and 3 controlled lakes; 6,500 miles of water mains; 7,500 miles of sewers; and 14 wastewater treatment plants. The authority finances the capital needs of the system. The New York City Water Board sets the system's rates. The City of New York operates the system.

METHODOLOGY

The principal methodology used in these ratings 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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