

Rating Action: Moody's assigns Aa1 to NYC Muni Water Finance Authority's second resolution Fiscal 2022 Series BB bonds; outlook stable

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New York, September 09, 2021 -- Moody's Investors Service has assigned a Aa1 rating to the New York City Municipal Water Finance Authority, NY's \$633 million Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2022 Series BB, consisting of \$545 million of Subseries BB-1 bonds and \$88 million of Subseries BB-2 bonds. The authority plans to price the Series BB bonds during the week of September 12, 2021. The outlook is stable.

RATINGS RATIONALE

The long-term Aa1 ratings reflect a strong claim on revenue generated by an essential service utility in a vast and diverse metropolitan area, the healthy liquidity of the water and sewer system, and strong rate management by the New York City Water Board. The second resolution bonds' claim on system revenue is subordinate to the claim of first resolution bonds. However, annual debt service on first resolution bonds is modest, providing holders of second resolution bonds access to a very large revenue base.

On an indenture basis, coverage of second resolution bond debt service is very healthy. On a net revenue basis, coverage is narrower and especially so relative to highly rated peers. This credit challenge is mitigated by a bondholder-friendly flow of funds that largely results from the gross revenue nature of the pledge. Bondholders also benefit from the early set-aside of debt payments.

RATING OUTLOOK

The stable outlook incorporates the expectation that the New York City Water Board will manage rates sufficiently to maintain healthy liquidity and sound debt service coverage while generating new revenue over the longer term in support of system maintenance.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Rate adjustments that are not sufficient to support sustained revenue growth and hold debt service coverage by net revenue close to current levels
- Sustained declines in the system's operating liquidity, or a change in regulations or water quality that necessitates much more borrowing
- The rating on the second resolution bonds specifically could be downgraded if the authority materially increased its issuance of first resolution bonds

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 authority's first resolution bonds are secured by a senior lien on gross revenue of the New York City Water and Sewer System. The second resolution bonds are secured by a lien on revenue of the water and sewer system, with the lien applied to revenue after the payment of first resolution bonds and authority operating expenses. These are operating expenses only of the authority and not the water and sewer system as a whole. The Fiscal 2022 Series BB bonds are being issued on a basis equal to outstanding second resolution bonds.

USE OF PROCEEDS

The bonds will provide funding in support of water and sewer projects outlined in the city's capital improvement plan.

PROFILE

The New York City Water and Sewer System serves a population of approximately 8.8 million in the five boroughs of New York City (Aa2 stable), 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 vast: its watershed area is 1.2 million acres; there are 19 water reservoirs and 3 controlled lakes; 6,800 miles of water mains; 7,500 miles of sewers; and 14 wastewater treatment plants. The New York City Municipal Water Finance 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 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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