



Rating Action: Moody's affirms ratings of the NYC Muni Water Finance Authority; assigns Aa1 to Fiscal 2024 Series BB bonds; outlook stable

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New York, February 22, 2024 – Moody's Investors Service has assigned a Aa1 rating to the New York City Municipal Water Finance Authority's (NY) Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2024 Series BB bonds, consisting of approximately \$207 million Fiscal 2024 Subseries BB-1 bonds and approximately \$550 million Fiscal 2024 Subseries BB-2 bonds. The authority anticipates pricing the bonds the week of March 4, 2024.

Concurrently, Moody's has affirmed the Aa1 rating on the authority's previously issued first and second general resolution revenue bonds. The authority has approximately \$406 million and \$33 billion of first and second resolution revenue bonds outstanding, respectively. The outlook remains stable. Moody's has also affirmed the P-1 short-term ratings on the authority's Extendable Municipal Commercial Paper Notes, Series Seven and Series Eight programs, and affirmed the VMIG 1 short-term enhanced ratings on variable rate demand bonds supported by several support agreements.

Affirmation of the ratings and outlook reflects a continuing trend of revenue growth, healthy debt service coverage and strong liquidity.

RATINGS RATIONALE

The long-term Aa1 rating reflects a 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 a bond ordinance basis, coverage of annual debt service will remain strong, given a gross revenue pledge and the authority's use of prior year surplus revenue to defease debt and lessen debt service requirements. Defeasance of debt has had no impact on liquidity, which itself is on a steady growth trend thanks to annual operating surpluses. On a net revenue basis, coverage is lower, but in line with coverage ratios maintained by other large municipal utility systems in the US. Additionally, the authority has established a bondholder-friendly flow of funds, backed by early set-aside of debt payments.

Both the P-1 and VMIG 1 ratings incorporate the long-term credit quality of the authority's Aa1 revenue pledges. The P-1 ratings further reflect the authority's strong market access and its healthy liquidity. The VMIG 1 ratings further reflect the credit quality of the banks providing conditional support and Moody's assessment of the low likelihood of an early termination of

any support agreement without a mandatory tender. Events that could cause any outstanding agreements to terminate without a mandatory purchase of the bonds are directly related to the credit of the authority. Accordingly, the likelihood of any such event occurring is reflected in the long-term Aa1 rating assigned to the bonds.

The authority's Adjustable Rate Fiscal 2003 F-2 Bonds are supported by a letter of credit (LOC) agreement with Citibank, N.A. The VMIG 1 rating on this series is derived from the credit quality of the counterparty, Citibank, N.A., as provider of the LOC. Moody's assessment of the likelihood of timely payment of purchase price is reflected in the short-term rating of the bonds, which is based on the short-term rating of the bank. Moody's current long-term and short-term counterparty risk assessments of Citibank, N.A. are Aa3(cr) and P-1(cr), respectively.

RATING OUTLOOK

The stable outlook associated with the long-term rating 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 the system's debt burden down to a level more in line with large system peers without adverse effects on system infrastructure

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Drop in coverage below 1.3x combined first and second resolution bond debt service, as measured by Moody's on a net revenue basis
- A fall in operating liquidity to under 250 days of operating expenses
- Growth in the system's debt burden to over 8x gross revenue
- The long-term rating on the second resolution bonds specifically could be downgraded if the authority materially increased its issuance of first resolution bonds
- The short-term ratings could be downgraded with significant deterioration of the system's liquidity, substantial downward movement in the authority's long-term ratings, or downgrades of the short-term counterparty risk assessments of the counterparty banks.

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 authority is issuing the Series BB bonds pursuant to the second resolution.

USE OF PROCEEDS

Proceeds of the bonds will finance capital improvements to the system and refund certain outstanding bonds.

PROFILE

The New York City Water and Sewer System serves a population of approximately 8.3 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 the revenue ratings was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at <https://ratings.moodys.com/mc-documents/386721>. The principal methodology used in the short-term ratings was US Municipal Short-term Debt Methodology published in May 2023 and available at <https://ratings.moodys.com/mc-documents/398329>. The principal methodology used in the Adjustable Rate Fiscal 2003 F-2 Bonds was Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology published in July 2022 and available at <https://ratings.moodys.com/mc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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 on <https://ratings.moodys.com/rating-definitions>.

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