FitchRatings

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

Fitch Ratings - New York - 24 Feb 2022: Fitch Ratings has assigned a 'AA+' rating to the following New York City Municipal Water Finance Authority's (NYW) revenue bonds:

--Approximately $793 million water and sewer system second general resolution revenue bonds fiscal 2022 series EE.

The fiscal 2022 series EE bonds are scheduled to sell the week of Feb. 28. Proceeds of the bonds, along with associated premium and available funds, will be used to refund certain outstanding SGR bonds, and to 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 expansive New York City (the city) water and sewer system (the system). The financial profile is very strong and assessed at 'aa' in the context of historically low leverage, as measured by net adjusted debt to adjusted funds available for debt service (FADS) on a gross revenue basis.

Bondholders are afforded strong protections through a statutory framework providing a gross lien on pledged water and sewer revenues, along with Fitch's expectation of the remoteness of either the authority or water board filing for bankruptcy protection, or being included in a city bankruptcy proceeding if one were to ever occur. The credit profile is further enhanced by very strong revenue defensibility and a very low operating risk profile, the latter two also each assessed at 'aa'.

Leverage has registered in the mid-7x range through fiscal 2020, however, the ongoing, adverse impact of the pandemic on the service area is driving leverage higher over the intermediate term. Reduced overall revenues and higher expenses increased leverage in fiscal 2021 (ending June 30, 2021) to 8.3x from 7.6x in fiscal 2020 as the acute effects of pandemic-driven closures were realized for a full year. Additionally, the system's previously projected rate increase was not adopted that year in light of the widespread economic strain, further reducing revenue-generating capacity.

Fitch anticipates leverage will increase again in fiscal 2022 to 8.9x. This is despite largely flat yoy financial performance predicated on further consumption declines that are modestly offset by a resumption in the rate increase (2.7%) and reduced expenses. The authority's five-year projections assume pandemic-driven consumption declines slowly taper through fiscal 2024, amid 5.9% annual rate increases and only modest expense increases. The forecast includes the execution of nearly $2 billion in annual capex supported by ongoing new debt issuance, as well as a continued expectation to generate sizeable annual surplus revenues.

Ongoing, albeit slow, recovery points to declining leverage through the five-year horizon. However, should revenue pressures persist longer-term, leverage sustained at or above 8.5x will likely result in negative rating action.

Fitch considers rates affordable for most customers, and operating costs have been generally stable. The service area exhibits economic diversity and resiliency, although it continues to experience pressures driven by the coronavirus pandemic and related containment measures.

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 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 1.2 bgd of wastewater at 14 in-city wastewater treatment plants for virtually the entire city. Average annual flows approximate 70% of the 1,805 mgd 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 First General Resolution (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 restricted revenue fund, which consists of both current year revenues and carry-forward surplus cash. The authority carried forward nearly $1.1 billion as of FYE 2021 (including a surplus of $94 million surplus above budget), enough to pre-pay around 68% of fiscal 2022 combined gross FGR and SGR debt service of nearly $1.6 billion within the first few months of the fiscal year. At FYE 2022, the anticipated carry forward included in the authority's forecast is $985.3 million in surplus revenues, or around 56% of projected fiscal 2023 combined debt service.

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 8.3x in fiscal 2021, compared to 7.6x in 2020, reflective of the absence of a rate increase, lower water and sewer volume and increased delinquencies that the authority primarily attributes to the impact of the coronavirus pandemic. Leverage is anticipated to remain somewhat elevated over the five-year horizon, absent an improvement in volumes relative to those projected. However, Fitch anticipates 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, lead to a gradual declining in leverage.

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 risk assessments.

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

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

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

--A delay in rate-setting or inability to levy rate adjustments at or higher than currently projected 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 EE 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. 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 Jan. 31, 2022.

Date of Relevant Committee

28 January 2022

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
• 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 (pub.01 Sep 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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