

28 FEB 2023

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

Fitch Ratings - New York - 28 Feb 2023: Fitch Ratings has assigned a 'AA+' rating to the following New York City Municipal Water Finance Authority's (NYW or the authority) revenue bonds:

--\$1.24 billion water and sewer system second general resolution (SGR) revenue bonds, fiscal 2023 series DD.

The fiscal 2023 series DD bonds are expected to be sold through negotiation the week of March 6. Proceeds of the bonds will be used to refund certain First General Resolution (FGR) and 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 the 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 very 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 a very strong revenue defensibility and operating risk profiles, both assessed at 'aa'.

Leverage registered in the mid-7.0x range through fiscal 2020 (FYE June 30). However, the ongoing adverse impact of the pandemic on the service area has driven leverage higher, reaching 8.3x in fiscal 2021. Fiscal 2021 leverage reflects reduced overall revenues and higher expenses 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.

In fiscal 2022, leverage improved to 8.0x, reflecting an increase in revenues driven by the 2.76% rate increase combined with a higher rate of consumption, slowing rate of delinquencies and the elimination of the lease payment to the city. Total debt service was lower in fiscal 2022, the result of prior years' cash defeasance and the benefit of the low interest rate environment on certain variable rate debt service.

The authority's five-year projections, which date from October 2022, assume an annual 1% decline in consumption independent of the pandemic, and pandemic-related consumption declines that taper through fiscal 2025. Annual rate increases include the already enacted 4.9% in fiscal 2023, and projections of 5.4% in each of fiscals 2024 and 2025 and 6.6% in each of fiscal 2026 and 2027.

The forecast assumes the execution of an average of \$2.3 billion in annual capital spending over the next five years, with an estimated \$1.9 billion in fiscal 2023, supported by ongoing new debt issuance, as well as continued expectations for sizeable annual surplus revenues.

Fitch notes changes since the October 2022 forecast which, absent offsetting actions, may result in narrower financial margins for fiscal 2023 and beyond and could pressure leverage. Among these items are a delay in the resumption of lien sales, which are assumed annually in the forecast. The city council has yet to renew the authority for these sales and the authority no longer anticipates a sale in the current fiscal year. In addition to savings from the current transaction, the recently approved amnesty program is anticipated to, at least in part, offset the absence of a lien sale and year to date revenues are ahead of projections.

The city recently reached an agreement with District Council 37 of the American Federation of State, County and Municipal Employees (DC-37). If ratified, this agreement will provide a greater level of predictability for a key cost component of the system through early November 2026, as the majority of the approximately 95% of DEP employees that are union members are members of DC-37. However, the specific cost of the agreement has yet to be incorporated into the forecast, although the authority estimates the October 2022 forecast includes sufficient funds for the current estimate of the agreement assuming similar terms are agreed with other unions.

Based on the authority's most recent five-year projections as of October 2022, Fitch's stress case leverage rises to 8.5x in fiscal 2023, and slowly trends lower through the five-year horizon to 8.3x in fiscal 2026. A continued trend of declining leverage is key to the Stable Outlook, as leverage remains elevated for the current rating. If this trend is interrupted, or if leverage exceeds 8.5x, a negative rating action is likely.

## **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 city's system. Fitch considers the authority 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 approximately 835,700 customers and about 8.5 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 the long term 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, and has been a stable 75% of dependable 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 bgd 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 restricted revenue fund, which consists of both current year revenues and carry-forward surplus cash. The authority carried forward nearly \$1.3 billion as of FYE 2022, enough to pre-pay around 78% of fiscal 2023 combined gross FGR and SGR debt service of nearly \$1.7 billion.

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 service area population. Bondholders are further afforded a gross lien pledge on system revenues and strong legal protections.

**Operating Risks 'aa'**

Very Low Operating Cost Burden, Elevated Capital Needs

The authority reimburses the city for operating expenses, which are very low relative to system volume and are expected to remain stable for the foreseeable future. Sustained 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'**

Leverage Elevated for the Rating; Gradual Declines Anticipated

The authority's leverage ratio (on a gross lien basis) was 8.0x in fiscal 2022, compared with 8.3x in fiscal 2021, reflecting the modest rate increase, improved consumption and lower expenditures that reflect the suspension of the lease payment to the city. Based on authority forecasts, leverage is anticipated to remain elevated for the rating 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, supporting a continued decline in leverage. The liquidity profile is anticipated to remain neutral to the 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 risk assessments.

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

--Failure of leverage to continue to trend downward through the five-year horizon;

--Leverage that remains materially above 8.0x through Fitch's base and stress cases;

--Sustained weakness in FADS stemming from 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.

**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 2023 series DD 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 the rating action commentary dated Nov. 10, 2022.

**Date of Relevant Committee**

09 November 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](http://www.fitchratings.com/esg).

**Fitch Ratings Analysts**

**Kristen Reifsnyder**

Director

Primary Rating Analyst

+1 646 582 3448  
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019



**Allison Clark**  
Director  
Secondary Rating Analyst  
+1 646 582 4562

**Audra Dickinson**  
Senior Director  
Committee Chairperson  
+1 512 813 5701







**Media Contacts**

**Sandro Scenga**  
New York  
+1 212 908 0278  
sandro.scenga@thefitchgroup.com

**Rating Actions**

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

**RATINGS KEY   OUTLOOK   WATCH**

<b>POSITIVE</b>		
<b>NEGATIVE</b>		
<b>EVOLVING</b>		



**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

**DISCLAIMER & DISCLOSURES**

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer

and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

**Endorsement policy**

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s [Regulatory Affairs](#) page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.