



RATING ACTION COMMENTARY

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

Thu 13 Feb, 2025 - 6:00 PM ET

Fitch Ratings - New York - 13 Feb 2025: Fitch Ratings has assigned a 'AA+' rating to the following New York City Municipal Water Finance Authority (NYW or the authority) water and sewer system second general resolution (SGR) revenue bonds:

--Approximately \$600.0 million fiscal 2025 series BB.

The bonds are scheduled to sell the week of Feb. 24 through negotiation. Proceeds of the bonds will be used to pay costs of system improvements and pay costs of issuance.

Fitch has also affirmed the following ratings:

--Approximately \$405.7 million first general resolution (FGR) revenue bonds and various related bank bonds at 'AA+';

--Approximately \$26.8 billion SGR revenue bonds and various related bank bonds at 'AA+';

--\$400 million authorized extendable municipal commercial paper (EMCP) notes, series seven and eight at 'F1+'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
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New York City Municipal  
Water Finance Authority  
(NY) [Water, Sewer]

New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues (2nd Lien)/2 LT	LT	AA+	Affirmed	AA+
New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues/1 LT	LT	AA+	Affirmed	AA+
New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues/1 ST	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

The 'AA+' rating on the FGR and SGR revenue bonds reflects the combined credit quality of the New York City Municipal Water Finance Authority (NYW, or the authority) and the New York City Water Board (the water board). The rating also reflects the authority's role as the issuer of revenue bonds on behalf and in support of the expansive New York City water and sewer system. The financial profile is very strong, assessed at 'aa', in the context of historically and projected very low leverage. This is measured as net adjusted debt to adjusted funds available for debt service (FADS) on a gross revenue basis.

Bondholders receive strong protections through a statutory framework that provides a gross lien on pledged water and sewer revenues. Fitch considers the likelihood of either the authority or water board filing for bankruptcy protection to be remote. Additionally, the

likelihood of either entity being included in a city bankruptcy proceeding, should one occur, is considered remote. The credit profile is further supported by very strong revenue defensibility and operating risk profiles, both assessed at 'aa'.

The authority's projections include the consolidated financials of the authority, board and system operations performed by the city's Department of Environmental Protection (DEP). These projections include fiscal years 2025 through 2029 (FYE June 30) and incorporate an enacted 8.5% rate increase for fiscal 2025, with anticipated 8.5% rate increases each of four remaining fiscal years of the forecast.

These anticipated revenue increases help to mitigate the impact of the maximum allowable rental payment to the city through fiscal 2029. The primarily debt-funded capital improvement program (CIP) remains robust, with capital spending projected at \$13.4 billion over the five-year period.

Based on these assumptions, leverage is anticipated to reach 8.0x in fiscal 2025 and trend downward thereafter, to 7.6x in Fitch's Analytical Stress Test (FAST) rating case by fiscal 2029. Fitch anticipates a continued trend of declining leverage. Failure to maintain this trend would likely have negative rating implications.

Fitch does not differentiate between the FGR and SGR liens as they are both afforded strong support from gross revenue pledge and benefit from the subordination of O&M payments. Since 2020, the authority has prefunded over \$1.0 billion of debt service, further reducing risk to subordinate lien bondholders. The 'F1+' rating on the EMCP reflects the authority's significant liquidity and the 'AA+' bond rating.

## **SECURITY**

The SGR 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. Outstanding FGR bonds are payable solely from and secured by a first lien on gross revenues of NYW.

## **KEY RATING DRIVERS**

Revenue Defensibility - aa

Very Strong Rate Flexibility, Favorable Service Area with Unique Economic Profile

The water board retains the legal authority to adjust rates as needed without external oversight. Revenue defensibility is further supported by the system's monopolistic

provision of water and sewer services to its favorable service area. The service area is characterized by a stable customer base, median household income that approximates that of the nation and a weaker, but improving, unemployment rate relative to that of the nation.

Fitch also considers the city's unique economic profile as an international center for numerous industries and anchor for the service area. Rates are considered affordable for approximately 80% of the service area population, using Fitch's standard monthly usage of 7,500 gallons for water and 6,000 gallons for sewer. Anticipated rate increases are not expected to materially impact affordability. There is no customer concentration within the service area.

### Operating Risk - aa

#### Very Low Operating Cost Burden, Significant Capital Investment

In fiscal 2024, the system's operating cost burden was considered very low at \$3,576 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was a low 38% in fiscal 2024. Capex outpaces annual depreciation, with a five-year average of 173% for the five years ended fiscal 2024.

The system's CIP for fiscal years 2025 through 2029 approximates \$19.6 billion of system funds, while estimated actual spending is projected at about \$13.4 billion for the same period. Approximately 49% of the CIP is related to water pollution control projects, including plant upgrades and reconstruction and water quality mandates.

Water distribution approximates 16% of the CIP, water supply and transmission approximate 17% and sewer programs are about 14%. Estimated capital spending averages \$2.7 billion annually during these five years, well in excess of historical depreciation, supporting a continued low life cycle ratio.

### Financial Profile - aa

#### Declining Leverage Anticipated to Continue; Neutral Liquidity

The authority's leverage (on a gross lien basis) was 7.3x in fiscal 2024, declining from the peak of 8.4x in fiscal 2021. Fiscal 2024 results reflect increased liquidity available for debt service that largely offset increases in debt. The liquidity profile is neutral to the assessment and reflects coverage of full obligations (COFO) of 1.2x and current cash on

hand of 374 days, when incorporating carryforward revenues. (Carryforward revenues include available funds that are restricted at the fiscal year end.)

The FAST considers the potential trend of key ratios in a base case and stress case over a five-year period. The stress case is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

In the base case, leverage is an estimated 7.9x in fiscal 2025, after which leverage trends downward through the five-year horizon, falling to 7.4x in fiscal 2029. In the stress case, which is also the rating case, leverage is 8.0x in fiscal 2025, gradually declining to 7.6x by fiscal 2029.

Anticipated robust rate adjustments result in leverage that continues to decline through the five-year period, consistent with Fitch's recent reviews. However, a sustained pause in the declining leverage trend or a reversal of this trend could pressure the rating. Fitch expects the liquidity profile to remain neutral to the assessment.

### **Asymmetric Additional Risk Considerations**

No asymmetric additive risk considerations affected this rating determination.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

-- Interruption or reversal of the declining leverage trend through Fitch's rating case.

-- Leverage sustained above 8.0x in Fitch's rating case.

-- Sustained weakness in FADS stemming from a delay in rate-setting or an increase in expenses that weakens the liquidity position.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

-- Leverage sustained below 5.0x in Fitch's rating case within the context of current revenue defensibility and operating risk assessments.

## **PROFILE**

The authority was created as a public benefit corporation in 1984 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 to the city for O&M reimbursement.

In addition to reimbursement for O&M, the city is entitled to an annual rental payment that may not exceed 15% of annual debt service. In fiscal 2024, the city requested and received a payment of \$145 million, approximately half the maximum amount. Projections for fiscal years 2025 through 2029 include the maximum rental payment allowed, ranging from \$295.0 million in fiscal 2025 to \$387.7 million in fiscal 2029.

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 operates and maintains 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 DEP and provides retail water and sewer service to approximately 839,000 accounts and about 8.3 million residents within the city. It also provides wholesale service to approximately one million residents in communities north of the city. The service area includes over 300 square miles across the city's five boroughs (the Bronx, Brooklyn, Manhattan, Queens and Staten Island), as well as communities in Westchester, Putnam, Orange and Ulster counties.

The DEP performs day-to-day system O&M and is responsible for executing the system's multibillion-dollar capital program. Capital and maintenance needs are expected to remain significant 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 1.8 bgd design capacity.

## **Response to Updated U.S. Environmental Protection Agency (EPA) Regulations**

The EPA's focus on lead and copper lines and per- and polyfluoroalkyl (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for PFAS.

DEP is in substantial compliance with currently applicable requirements of the LCRI, including the requirement to submit an initial service line material inventory and related notification to certain customers as necessary, with which DEP offered free testing. DEP is working towards refining the service line inventory and studying additional water system treatment options to comply with the LCRI's requirements. DEP has begun incorporating replacements into its capital plan and is implementing certain facility improvements to allow for enhanced treatment. DEP expects to incur higher costs to comply with the LCRI across the spectrum of its operations.

DEP monitors for PFAS compounds as required by the Fifth Unregulated Contaminant Monitoring Rule (UCMR5). Monitoring for UCMR5 commenced in the fourth quarter of calendar 2023. DEP has also begun to evaluate relevant data and methodologies for source evaluation in the area of the Kensico Reservoir and Kensico Basin.

## **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 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 restricted revenue fund, which consists of both current year revenues and carryforward surplus cash. The authority carried forward about \$1.8 billion into fiscal 2025, sufficient to fund over 90% of fiscal 2025 total debt service of almost \$2.0 billion.

After monthly required deposits under the SGR are satisfied and held by NYW's trustee, funds will be released for other purposes, including the cash defeasance of additional debt, reimbursement to the city for O&M expenses and the rental payment (if any).

## **Sources of Information**

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data 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**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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## **APPLICABLE CRITERIA**

[U.S. Water and Sewer Rating Criteria \(pub. 29 Feb 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

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## ENDORSEMENT STATUS

New York City Municipal Water Finance Authority (NY)

EU Endorsed, UK Endorsed

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