Rating Action: Moody's assigns Aa1/VMIG 1 ratings to the NYC Muni Water Finance Authority's (NY) Second Resolution Adjustable Rate Fiscal 2023 Series BB Bonds

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New York, December 09, 2022 -- Moody's Investors Service has assigned Aa1 long-term and VMIG 1 short-term ratings to the New York City Municipal Water Finance Authority's (NY) Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2023 Series BB, consisting of $100 million Fiscal 2023 Subseries BB-1 and $100 million Fiscal 2023 Subseries BB-2. Mizuho Bank, Ltd. (the Bank) is providing the Standby Bond Purchase Agreement (SBPA) for the Series BB-1 and Series BB-2 Bonds.

Moody's maintains a Aa1 long-term rating on the authority's previously issued first and second general resolution revenue bonds. The authority has approximately $800 million and $31 billion of first and second resolution revenue bonds outstanding, respectively. The outlook on the authority's bonds is stable.

RATINGS RATIONALE

The long-term Aa1 rating reflects 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.

The short-term ratings are derived from (i) the credit quality of the Bank providing the liquidity support for the Bonds in the form of the SBPA, (ii) the long-term rating of the Bonds and (iii) our assessment of the likelihood of an early termination or suspension of the SBPA without a final mandatory tender. Events that would cause termination or suspension of the SBPA without a mandatory purchase of the Bonds are directly related to the credit quality of the Authority. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating assigned to the Bonds. Moody's current short-term counterparty risk assessment of the Bank is P-1(cr).

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

- Short-term rating: not applicable

- Long-term rating: 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

- Short-term rating: Moody's downgrades the short-term CR Assessment of the Bank

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

LIQUIDITY SUPPORT FOR TENDERS

The Bank may automatically terminate or suspend their payment obligations under the SBPA upon each of the following:

- Default by the Authority on the payment of principal or interest on the Bonds or any debt senior to or on parity with the Bonds;

-The bankruptcy or insolvency of the Authority;

-Imposition by the Authority, the state or any other governmental authority with jurisdiction over the Authority of a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on repayment when due of the principal or interest on the Bonds or all debt obligations of the Authority secured by a lien on revenues on a basis that is senior to or on parity with the Bonds;

-Finding by a court of competent jurisdiction or initiation by the Authority of legal proceedings seeking a finding that the Bonds or any provision of the SBPA or the Resolution relating to the payment of principal and interest on the Bonds or the pledge of the revenues supporting the Bonds is null and void, invalid or unenforceable or that the Authority has no liability thereon;

-Assignment by each rating agency rating the Bonds of a rating below investment grade to any debt senior to or on parity with the Bonds, or withdrawal or suspension by each rating agency rating the Bonds of any rating on debt senior to or on parity with the Bonds for credit related reasons;

-Failure by the Authority to satisfy within 90 days a final non-appealable money judgment entered by a court or regulatory body of competent jurisdiction against the Authority in an amount in excess of $25 million.

The Bonds of each series will be issued in the daily mode. The Resolution permits conversion of the Bonds, in whole by series, to the daily, two-day, weekly, commercial paper, flexible, direct purchase, ARRS or fixed rate modes. Bonds so converted will be subject to mandatory tender upon conversion, except for conversion between the daily, two-day and weekly rate modes. The SBPA supports the Bonds while in the daily, two-day or weekly rate modes. The Bonds pay interest on the fifteenth (15th) day of each month in these modes.

Bondholders may, at their option, tender Bonds (i) during the weekly rate mode on any business day with at least seven days prior written notice to the tender agent and remarketing agent; (ii) during the daily rate mode on any business day with notice to the tender agent and remarketing agent by 11:00 a.m., New York City time; and (iii) during the two-day mode on any business day with prior written notice to the tender agent and remarketing agent by 3:00 p.m., New York City time, at least two business days prior to the tender date.

The Bonds are subject to mandatory tender on: (i) each interest rate mode conversion date (other than the conversion of Bonds between the daily, two-day and weekly rate modes); (ii) the substitution date of the SBPA if solely as a result of such substitution, a rating agency reduces or withdraws the long-term or short-term ratings assigned to any portion of the Bonds; (iii) the last business day prior to the expiration date or earlier termination of the SBPA if at least fifteen (15) days prior to such termination the SBPA hasn't been extended or substituted; and (v) any business day the Authority determines it is in the best interest of the bondholders to cause a mandatory tender of the Bonds.

The SBPA provides sufficient coverage of principal in an amount equal to the Bonds plus 35 days of interest at 9%, the maximum rate applicable to the Bonds, and cover the Bonds while in the daily, two-day and weekly rate modes. The SBPA is available to pay purchase price for the Bonds to the extent remarketing proceeds received are insufficient. Draws made on the SBPA received by 12:00 p.m., New York City time, will be honored by 2:30 p.m., New York City time, on the same business day. Draws will be reinstated upon reimbursement of such drawings.

The commitment under the SBPA will terminate upon the earliest to occur of: (i) the scheduled expiration dates (December 15, 2025); (ii) the date on which all Bonds have been paid in full, redeemed or converted to a mode other than daily, two-day or weekly, provided that any draw for conversion is honored; (iii) the date of substitution of the SBPA, provided that any draw for substitution is honored; and (iv) the date on which the available commitment under the SBPA is terminated.

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 refund the authority's outstanding First General Resolution Adjustable Rate Fiscal 2012 Series A Bonds.

PROFILE

The New York City Water and Sewer System serves a population of approximately 8.5 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 long-term ratings was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at https://ratings.moodys.com/api/rmc-documents/386721. The principal methodology used in the short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at https://ratings.moodys.com/api/rmc-documents/68283. 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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Matthew Butler
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Nicholas Samuels
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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