



Rating Action: Moody's assigns Aa1 to NYC Muni Water Finance Authority's (NY) second resolution Fiscal 2024 Series AA bonds; outlook stable

18 Sep 2023

New York, September 18, 2023 -- 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 AA bonds, consisting of approximately \$257 million Fiscal 2024 Subseries AA-1 bonds, approximately \$161 million Fiscal 2024 Subseries AA-2 bonds, and approximately \$211 million Fiscal 2024 Subseries AA-3 bonds. Moody's maintains a Aa1 rating on the Authority's previously issued first and second general resolution revenue bonds. The Authority has approximately \$450 million and \$32 billion of first and second resolution revenue bonds outstanding, respectively. The outlook remains stable. The Authority anticipates pricing the bonds the week of September 25, 2023.

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.

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 down the utility's debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

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

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 AA 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 these ratings was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at <https://ratings.moodys.com/rmc-documents/386721>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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