S&P Global Ratings

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Summary:

New York City Municipal Water Finance Authority, New York; Water/Sewer

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Credit Profile		
US$100.0 mil wtr swr sys 2nd gen res rev bnds, adjustable rt ser 2023BB-2 due 06/15/2044		
Long Term Rating	AA+/A-1/Stable	New
US$100.0 mil wtr swr sys 2nd gen res rev bnds, adjustable rt ser 2023BB1 due 06/15/2044		
Long Term Rating	AA+/A-1/Stable	New

Credit Highlights

- S&P Global Ratings Services assigned its 'AA+/A-1' rating to New York City Municipal Water Finance Authority's (authority) anticipated $200 million 2023 series BB, subseries BB-1, and subseries BB-2 water and sewer system second general resolution revenue bonds.
- The outlook is stable.

Security

The 'AA+' long-term component of the rating reflects our view of the authority's credit characteristics. The 'A-1' short-term component of the rating reflects the standby bond purchase agreement (SBPA) provided by Mizuho Bank, LTD., acting through its New York Branch, effective Dec. 15, 2022. The SBPA will cover principal and 35 days' interest at a maximum 9% annual rate for the purchase price of bonds that are not successfully remarketed. The SBPA provides coverage for the bonds during the daily mode, two-day mode, and weekly mode (eligible rate). The SBPA is due to expire on Dec. 15, 2025, unless extended, replaced, or terminated beforehand.

The SBPA initial covers the bonds in the daily mode. The SBPA's obligations to purchase tendered bonds will automatically terminate should certain events of default set forth in the SBPA occur; these events (which we have deemed consistent with our published criteria) include, but are not limited to, a lowering of the rating on the bonds or any of the authority's parity debt below 'BBB-'.

Credit overview

This analysis of the 2023 series BB, subseries BB-1 and subseries BB-2 bonds reflects information as of Dec. 8, 2022. Subsequent information from now until the closing date could result in our changing or withdrawing the rating.

The 'AA+' long-term rating reflects our view of the broad, diverse, and affluent service area as well as the sophisticated management team that supports a highly complex operating profile and capital plan. While all-in coverage is weaker than its peers at the current rating level, the security structure provides significant bond holder security and robust system liquidity, which provides operating flexibility and mitigates the potential financial effects of event risk. New York Water faces several challenges related to the macroeconomic and policy landscape as well as the nature of the system's underlying infrastructure. Recessionary headwinds are expected to bring affordability considerations to the forefront. With continued uncertainty related to collections policies and the ability to impose liens, higher relative rates may be required to offset lower collections. Balancing rate affordability and financial health is expected to be an important credit consideration going forward. Furthermore, labor and supply chain obstacles are expected to remain meaningful-- for both New York Water and the sector. Labor challenges may pose outsized credit risk for New York Water given unfilled vacancies (approximately 1,000 or 16% of the workforce) and civil service obstacles regarding operations and capital execution. The ability to hire and retain essential staff is an important aspect of our operational effectiveness assessment. Management is executing strategies to mitigate the impact of the vacancies and the reduced allowable headcount. Labor contracts remain unresolved, introducing uncertainty into the utility's budgeting and planning. Unfilled vacancies can lead to overtime costs and potential compliance risk if critical positions are unfilled. In addition, vacancies have led to difficulties in executing the capital plan, which may increase deferred maintenance risks.

The fiscal 2023 capital budget is $2.14 billion, a slight increase from the fiscal 2022 level. Project funding includes emergency contracts for water and sewer work, the Southeast Queens storm sewer buildout program, water distribution system and wastewater collection sewer work, state of good repair (SOGR) projects, and water supply infrastructure. Legally mandated projects account for 32% of the capital and expense budget, which while nearly 10% higher than 2022 levels are well below past levels, a factor we view favorably as it provides greater capital execution flexibility. About 98% of the authority's New York City Department of Environmental Protection strategic initiatives are on schedule within the third year of its strategic plan, including several climate-related projects and critical maintenance. Strong asset management is an important credit consideration. Management continues to refine and improve its asset management program, including well-defined policies that provide a uniform methodology for a comprehensive evaluation of capital assets and a systematic approach to scheduling preventive maintenance and upgrades. This is a critical driver in our asset adequacy assessment, given the age of the infrastructure and potential risks of catastrophic failures. We believe management has extremely robust asset planning. As discussed, labor issues have resulted in procurement slowdowns, delaying some projects. If this results in changes to preventative maintenance, it could influence our view of credit quality.

For more information, please our analysis published Nov. 10, 2022 on RatingsDirect.

Environmental, social, and governance

Our rating on these issues is linked to the support provider. Environmental, social, and governance (ESG) factors that influence the rating on these supporting entities could also influence the rating on these securities. Our assessment of the creditworthiness of support providers incorporates any material ESG credit factors regardless of any self-designation, such as green or social, the issuer might apply. In our view, exposure to ESG factors in these transactions is limited to the factors related to support providers. (For further information on the ESG considerations relevant for bank ratings and underlying securities, refer to the U.S. and Canadian, EMEA, Asia-Pacific, and Latin American bank ESG industry report cards and "Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors", published March 2, 2022, on RatingsDirect.)

Outlook

The stable outlook reflects our belief that New York Water will retain the financial capacity to weather the effects of a potential recession, inflation, and other system challenges.

Downside scenario

While we believe that New York Water's budgeting practices are generally conservative and credit-supportive at the current rating, a misalignment between revenue and revenue requirements leading to financial performance that is consistently weaker than historical trends could pressure the rating. This includes any potential revenue declines associated with reduced remedies available and the potential change that could have on user behavior, which could be difficult to correct. Further, we expect inflation, supply chain challenges, and labor difficulties to pressure expenditures, stressing financial performance. We believe management has the capacity and willingness to adjust rates to offset such these issues, as evidenced by the board having a very long history of adjusting rates, usually annually, as needed. However, we will monitor the system for additional rate increases or any indication of reduced rate-setting flexibility.

Upside scenario

Consistent with the application of our "Assigning Issue Credit Ratings Of Operating Entities", criteria (published May 20, 2015, on RatingsDirect), we do not consider there to be upward rating potential on the second general resolution debt.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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