

RatingsDirect®

Summary:

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

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Credit Profile

US\$400.0 mil wtr & swr sys sec gen res rev bnds ser 2024CC-1 due 06/15/2054		
<i>Long Term Rating</i>	AA+/Stable	New
US\$77.695 mil wtr & swr sys second gen resolution rev bnds ser 2024CC-2 due 06/15/2046		
<i>Long Term Rating</i>	AA+/Stable	New
New York City Mun Wtr Fin Auth WS (1st resolution)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to the New York City Municipal Water Finance Authority's (New York Water [NYW]) anticipated \$478 million series 2024 CC-1 and CC-2 water and sewer system second general resolution revenue bonds, issued on behalf of New York Water.
- At the same time, we affirmed our 'AAA' rating on the authority's first general resolution bonds, our 'AA+' rating on its second general resolution bonds, and our 'A-1+' commercial paper (CP) program rating.
- Finally, we also affirmed our 'A-1+' and 'A-1' short-term ratings on the system's outstanding debt, where applicable, based on the liquidity provider's short-term rating.
- The outlook, where applicable, is stable.

Security

The 'AA+' long-term rating reflects our view of the general creditworthiness of New York Water (NYW). We rate the first general resolution (senior) issues 'AAA'. We maintain a one-notch difference between the first and second general resolution bonds, based primarily on the significantly stronger coverage of the first-lien bonds. NYW has approximately \$405.7 million in first general resolution bonds and \$32.9 billion in second general resolution bonds outstanding. It plans to use the series 2024 CC-1 and CC-2 bonds to pay for system improvement costs, refund certain outstanding debt, and pay costs of issuance. The second resolution bonds do not benefit from a debt service reserve fund. All bondholders benefit from a gross revenue pledge and a statutory, perfected lien. Current law does not authorize NYW or the board to declare bankruptcy. While S&P Global Ratings does not rate to recovery, the presence of a statutorily perfected lien and limitations around bankruptcy are viewed as positive structural provisions.

Credit overview

The rating is positively influenced by several factors, including the security structure which provides significant bondholder security due to the gross revenue pledge. By practice, NYW has used carry-forward cash balances to fund its debt service well in advance of payment dates, which functions as a de facto set-aside for all of its bonds. In addition, the rating reflects a positive adjustment for extraordinary financial strengths such as coverage on all debt that

is significantly higher than 3x and maintenance of unrestricted liquidity that has not dropped below \$1 billion for at least the last five fiscal years; at June 30, 2023, unrestricted cash and investments totaled \$2.1 billion.

Our 'AA+' long-term rating reflects our view of NYW's broad, diverse, and affluent service area as well as the sophisticated management team that supports its highly complex operating profile and capital plan. While we consider projected all-in coverage somewhat lower than its peers at the current rating level when accounting for all utility operating expenses (including those that are subordinate, such as base rental), the security structure provides significant bondholder security and robust system liquidity, which in turn provides operating flexibility and mitigates the potential financial pressure from event risk, which we account for in the rating. NYW faces several challenges related to the macroeconomic and policy landscape, as well as the age, size, and complexity of the system's underlying infrastructure. The authority's ability to balance rate affordability and financial health is an important credit consideration, especially since the economic recovery has been relatively slow and the city continues to face challenges.

In the short term, labor challenges remain significant for both NYW and the sector. Labor challenges pose an outsized credit risk for NYW, despite management reducing vacancies to 11% during the past year. Operations have not been affected yet due to the use of overtime, schedule reallocations, and targeted technical hiring. We consider an entity's ability to hire and retain essential staff an important aspect in our operational effectiveness assessment. In addition to addressing its labor challenges, the system continues to navigate the current limitations on remedies and enforcement of collections, which affect delinquencies. The city has not been authorized to sell its water or sewer liens since March 2022. The reauthorization of lien sales would be viewed positively from a collections perspective and would further support enforcement and rate-setting practices. The system's relative autonomy with respect to enforcement and hiring is critical to its credit quality. Limitations from the city or city council that reduce its operating or financial independence would be detrimental to credit quality.

In the longer term, we believe capital investment and the influence on affordability (and thus financial performance) will affect credit performance. The fiscal 2024 capital budget is \$2.68 billion, an 18% increase from the fiscal 2023 level. The authority expects to issue \$10.5 billion during the next five years. NYW has a very sophisticated management team but it faces challenging projects to address system rehabilitation and climate change, and operates in an aggressive regulatory environment--with new rules pending for lead and copper as well as per- and polyfluorinated substances (PFAS). In our view, NYW's project management acumen is high and despite the complexity of several projects, we believe management has taken steps to identify potential risks and associated contingencies or mitigants. This is especially important as several projects involve water quality, health, and safety and are long overdue. The Department of Environmental Protection (DEP) performs a quarterly review of the authority's construction portfolio for timeline variances, and takes corrective action when appropriate, which we view favorably.

Additional key credit factors include:

- Broad and diverse economic and customer base, and no comparably sized peers. Economic recovery has begun, but remains slightly below the national level, with continued weakness in income and relative gross county product growth. Sufficient coverage, with fiscal 2023 performance improving due to the one-time amnesty program and an increase in water and sewer rates. Water and sewer payments for the first seven months of fiscal 2024 are 0.4% lower than projections, but may rebound. We believe the authority will maintain adequate financial capacity, which

may be pressured by its capital needs and above-average delinquencies, reflecting the stubborn nature of the recovery as well as management's current inability to sell liens, which reduces the remedies available to compel payment and is expected to weaken collections, based on historical precedent.

- Affordable rates, with annual rate increases of 5.4% projected in 2025 and 5.9% in 2026, followed by a 6.6% annual rate increase in 2027 and 2028. Rate increases are expected to be manageable, but if collections continue to underperform, management may boost its planned rate increases to offset revenue loss. Rate setting is flexible, with the ability to increase rates within 30 days, which we view favorably.
- Seasoned and effective management team and board, which we believe have a strong sense of fiduciary duty as well as operational and financial acumen. This supports our credit view and our confidence in management, despite the substantial complexities NYW faces during the outlook period, including a sizable capital plan, labor challenges, uncertainties related to collections and lien policy, and increasing climate change pressures, all in a challenging economic environment.
- Extremely strong liquidity position, both nominally and on a days' cash basis, which is critical to financial flexibility and credit strength. The ability to maintain significant cash balances directly influences debt service coverage, given the carryforward of balances on an annual basis, which reduces debt service and improves coverage. This practice also allows for a more level rate structure, although if the use of rolling cash balances results in rate increases being postponed, we would view it as indicative of potential structural issues, which could pressure credit quality.

Environmental, social, and governance

New York Water is faced with numerous ongoing environmental, social, and governance (ESG) factors that affect our analysis. We believe the system has outsized environmental risks, given the regulatory and climate resilience efforts that will be required to maintain its infrastructure at adequate levels.

The management and governance structure--with separate entities for operations, governance, and finance--has allowed for critical and apolitical decision-making, with an eye toward both financial integrity and maintaining operations at a high level. We believe its governance efforts are sophisticated, which supports addressing long-term risks associated with asset adequacy.

Extreme weather events are becoming more common and ongoing sea-level rise will present system challenges. Emergency preparedness has improved, but climate resilience has taken on more urgency and is expected to require significant additional funding. New York Water has several planning initiatives, including resiliency planning, climate change modeling, and annual reporting to measure progress.

In 2021, the city released a report on "The New Normal," which addresses risk mitigation related to extreme storms. This report outlines efforts to reduce emissions, harden infrastructure to protect shoreline communities most vulnerable to storms, and initiatives to create a continuous line of protection against rising sea levels and storms. Specific to the utility, the report addresses its substantial need to rehabilitate and replace sewer pipes that were designed a century ago and are expected to be inadequate for current climate considerations. The report highlights the long- and short-term upgrades needed as well as innovative drainage solutions.

We believe management's approach to climate resiliency and sustainability is sound, and there is strong collaboration with the city. Given the age of the system and the regional climate risks, the capital plan addresses infrastructure projects that result in a more resilient system and has been increased to incorporate some of the projects associated

with the recent report.

Further, 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 factor in our asset adequacy assessment and our view of governance, given the advanced age of New York Water's infrastructure and the potential risks for catastrophic failures.

Median household effective buying income varies widely from borough to borough. Given the variance, the city's DEP has a bill pay assistance program for low-income, senior, and disabled customers that we consider at least as robust in achieving social goals as those of comparable peer cities.

Outlook

The stable outlook reflects our belief that New York Water will retain the financial capacity and management autonomy to navigate its near-term economic, infrastructure, climate, and regulatory pressures.

Downside scenario

While we believe that New York Water's budgeting practices are generally conservative and credit-supportive at the current rating, the rating could be pressured by a general misalignment between revenue and revenue requirements or a reduction in enforcement ability that leads to financial performance that is consistently weaker than historical trends. We believe management has the capacity and willingness to adjust rates to meet its capital and operating needs, as evidenced by the board having a very long history of adjusting rates, usually annually, as needed. However, we will monitor the need for additional rate increases and any indication of reduced rate-setting flexibility or management autonomy.

Economic factors have been declining since the pandemic, including population and gross county product, and contributing to elevated delinquencies. Continued economic weaknesses could also lead to a lower rating, especially given the already large size of accounts receivable. Economic considerations for the city also affect the authority, as evidenced by the city requesting the base rental payment for fiscal years 2024 and 2025, which is indicative of the economic impacts on city financial performance as well.

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.

Rating Above The Sovereign

Although the rating on New York Water's first general resolution bonds is currently above that of the U.S., New York Water's revenue base is predominantly locally derived. Local service charges, derived through an autonomous rate-setting process, represent virtually all the entity's revenue. This, coupled with operating expense flexibility,

precludes exposure to federal revenue and allows us to rate the system's first general resolution debt above that of the U.S.

Related Research

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

Ratings Detail (As Of April 5, 2024)		
New York City Municipal Water Finance Authority WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Municipal Water Finance Authority W/S (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr and swr sys second gen res rev bnds, adj rt		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr and swr sys 2nd general resolution rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr swr sys second gen resolution rev bnds ser 2020EE due 06/15/2042		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys first resolution bnds		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resolution rev bnds fiscal 2011 VRDBs ser DD-3B dtd 11/18/2010 due 06/15/2043		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth EMCP series 7		
<i>Short Term Rating</i>	A-1+	Affirmed
New York City Mun Wtr Fin Auth EMCP series 8		
<i>Short Term Rating</i>	A-1+	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of April 5, 2024) (cont.)		
New York City Mun Wtr Fin Auth WS (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (CIFG) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (FGIC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (FGIC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (FGIC) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed

Ratings Detail (As Of April 5, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of April 5, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of April 5, 2024) (cont.)

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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