New Issue: Moody's assigns Aa2/VMIG 1 to $250M of New York Muni Water VRDBs; outlook stable

Global Credit Research - 22 Oct 2015

$4.0B of first resolution and $25.9B of second resolution bonds outstanding

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY, NY
Combined Water & Sewer Enterprise
NY

Moody's Rating

ISSUE		RATING
Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2016 Series AA, Subsereis AA-2		Aa2
Sale Amount	$100,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	
Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2016 Series AA, Subseries AA-1		Aa2
Sale Amount	$100,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	
Water and Sewer System Second General Resolution revenue Bonds, Fiscal 2016 Series AA, Subseries AA-3		Aa2
Sale Amount	$50,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	
Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2016 Series AA, Subsereis AA-2		VMIG 1
Sale Amount	$100,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	
Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2016 Series AA, Subseries AA-1		VMIG 1
Sale Amount	$100,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	
Water and Sewer System Second General Resolution revenue Bonds, Fiscal 2016 Series AA, Subseries AA-3		VMIG 1
Sale Amount	$50,000,000	
Expected Sale Date	10/29/15	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, October 22, 2015 --Moody's Investors Service has assigned Aa2/VMIG 1 ratings to the New York City Municipal Water Finance Authority's $250 million Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2016 Series AA, consisting of $100 Subseries AA-1, $100 million Subseries AA-2, and $50 million Subseries AA-3. The bonds are scheduled to price October 29.

SUMMARY RATING RATIONALE

The authority's Aa1 first resolution and Aa2 second resolution ratings reflect strong bondholder protections provided by a strong legal structure; healthy debt service coverage provided by a gross lien on the system's revenues and enhanced by independent rate-setting ability; the essential nature of New York City's water and sewer system and the monopoly the city and the authority have in providing that service; the challenges of operating and maintaining the system given its size, age and density of the population it serves; a high debt burden; and the ongoing need to increase rates to finance capital and debt costs, although at lower levels than in recent years. For our full description of New York Water's long-term credit quality, see our report dated May 15. The short-term VMIG 1 ratings reflect the authority's credit quality and the credit quality of the three banks separately providing the standby bond purchase agreements (SBPAs) for each subseries of bonds, and our assessment of the likelihood of an early termination of the SBPAs without a final mandatory tender to the provider of the applicable SBPA.

OUTLOOK

The outlook for the New York City Municipal Water Finance Authority is stable. The authority has navigated a sizeable increase in debt to finance mandated and other capital projects while maintaining strong debt service coverage. Like water and sewer systems throughout the nation, regulatory mandates could drive future capital costs upwards and create other uncontrollable spending needs.

WHAT COULD MAKE THELONG-TERM RATING GO UP

-- A stronger additional bonds test or other stronger limitations on leveraging the pledged revenues

-- Reduction in debt burden

-- Sustained stability in consumption levels

WHAT COULD MAKE THE LONG-TERM RATING GO DOWN

-- Failure to continue to set rates at levels needed to afford the system's capital program, large debt load and the water and sewer system's significant operating costs that result in weakened financial ratios or debt service coverage

-- New state or federal regulations that require especially large capital expenditures or that create uncontrollable costs for the authority

WHAT COULD MAKE THE SHORT-TERM RATING GO DOWN

-- The short-term rating of each Subseries of Bonds would be downgraded if Moody's were to downgrade the counterparty risk assessment of the applicable Bank and could be downgraded if Moody's were to downgrade the long-term rating of the Bonds.

STRENGTHS

-- Legal structure that provides strong bondholder protections, including: bankruptcy protection and legal separation from the fiscal condition of New York City; autonomous rate-setting authority; and a gross revenue pledge

-- A long history of regular, independently-set rate increases that maintain financial stability, support a substantial capital program, and provide healthy debt service coverage

- Ample water supplied from the city's own extensive reservoir network; low transmission costs relative to other large systems; water rates that currently are moderate compared to other large cities; and authority to sell liens to monetize unpaid bills and provide incentive to delinquent customers to pay

CHALLENGES

-- The water and sewer system's size, age and density pose operating and maintenance management challenges

-- The overall leverage of the system, although debt service coverage remains sound

-- A history of state and federal regulatory mandates which on average total approximately 22% of the system's 11-year capital plan). While smaller than in recent years, the water and sewer sector is heavily regulated and new mandates could substantially increase the authority's future borrowing needs

DETAILED RATING RATIONALE

LIQUIDITY SUPPORT FOR TENDERS

The short-term VMIG 1 ratings of the New York City Municipal Water Finance Authority Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2016 Series AA Subseries AA-1, Subseries AA-2 and Subseries AA-3 (the Bonds) are derived from: (i) the credit quality of Bank of America N.A. (BofA) as provider of liquidity support in the form of a standby bond purchase agreement (SBPA) for the Subseries AA-1 Bonds, PNC Bank, N. A. (PNC) as provider of liquidity support in the form of a SBPA for the Subseries AA-2 Bonds, and Royal Bank of Canada (RBC) as provider of liquidity support in the form of an SBPA for the Subseries AA-3 Bonds; and, (ii) Moody's assessment of the likelihood of an early termination of the SBPAs without a final mandatory tender to the provider of the applicable SBPA. Events that would cause the SBPAs to terminate without a mandatory purchase of the Bonds by the applicable SBPA provider are directly related to the credit of the New York City Municipal Water Finance Authority (the Authority). Accordingly, the likelihood of any such event occurring is reflected in the long-term ratings assigned to the Bonds. Moody's short-term counterparty risk assessments of BofA, PNC and RBC are all P-1(cr).

Each banks' obligations under the SBPA can be automatically terminated or suspended if: (i) the Authority defaults on the payment of principal or interest on the Bonds or any debt senior to or on parity with the Bonds; (ii) the Authority, the state or any other governmental authority with jurisdiction over the Authority imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on repayment when due of the principal or interest on the Bonds and/or other debt obligations of the Authority secured by a lien on revenues on a basis that is senior to or on parity with the Bonds (any such debt in the case of the Authority, all such debts in the case of another governmental authority) (iii) the Authority (a)applies for or consents to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator, or other similar official of the Authority or of all or a substantial part of its property or assets, (b) admits to its inability or is generally unable to pay its debts as they come due, (c) makes a general assignment for the benefit of creditors, or (d) files a petition or otherwise seeks relief under any federal or state bankruptcy or similar law; (iv) a case or other proceeding brought against the Authority seeking liquidation, reorganization or other similar relief with respect to it or its debts or results in an order for relief against the Authority; (v) a court of competent jurisdiction finds or the Authority initiates legal proceedings seeking a finding that the Bonds are or that 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; (vi) each rating agency rating the Bonds assigns a rating below investment grade to any debt senior to or on parity with the Bonds, or withdraws or suspends any rating on debt senior to or on parity with the Bonds for credit related reasons; (vii) 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 remains unsatisfied for 90 days.

The Bonds will be issued in the daily rate mode with interest paid on the 15th day of each month. The Bonds are convertible, in whole by Subseries, to the weekly, two-day, flexible rate, commercial paper rate, fixed and auction rate modes. Upon any such conversion (other than between the daily, two-day and weekly modes), the Bonds will be subject to mandatory tender. The SBPAs support the Bonds while in the daily, two-day and weekly rate modes and Moody's short term rating will expire upon conversion to a mode other than daily, two-day or weekly.

The SBPAs may be substituted. Upon substitution the applicable Subseries of Bonds will be subject to mandatory tender unless each rating agency then rating such Subseries of Bonds provides written evidence that the current rating on the Subseries of Bonds will not be reduced or withdrawn as a result of such substitution.

Each Subseries of Bonds is subject to mandatory tender as follows: (i) upon conversion to a rate mode other than daily, two-day, or weekly; (ii) at the end of each flexible rate or commercial paper rate period; (iii) on the last business day of the daily rate period, two-day period, or weekly rate period next preceding the expiration date or earlier termination of the liquidity facility; (iv) on the date of substitution of the liquidity facility unless the rating is being maintained, as evidenced in writing by each rating agency rating the bonds; and (v) no later than the business day immediately preceding the termination date of the liquidity facility specified in a notice of termination delivered by the liquidity provider to the tender agent due to an event of default under such liquidity facility.

Bonds in the daily, two-day and weekly rate modes may be optionally tendered on any business day upon notice from bondholders to the tender agent and remarketing agent. Such notice must be provided by 11:00 a.m., New York City time on the purchase date in the case of the daily rate mode, by 3:00 p.m., New York City time, on a business day not less than two business days before the purchase date in the case of the two-day rate mode and seven (7) days prior to the purchase date in the case of the weekly rate mode.

Each SBPA covers the full principal amount of the applicable Subseries of Bonds plus 35 days of interest at 9%, the maximum rate applicable to the Bonds. Each SBPA provides sufficient coverage for the applicable Subseries of Bonds while they are in the daily, two-day and weekly rate modes. The SBPAs are available to pay purchase price to the extent remarketing proceeds received are insufficient.

Draws made on the SBPAs received at or prior to 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 made under the SBPA will be reinstated upon reimbursement of such drawing.

The commitment under each of the SBPAs will terminate on the earliest to occur of: (i) its scheduled expirations date (October 26, 2018 for the PNC SBPA supporting Subseries AA-2 and the RBC SBPA supporting Subseries AA-3 and October 28, 2019 for the BofA SBPA supporting Subseries AA-1; (ii) the earlier of (a) the date on which the applicable bank honors a drawing in connection with the delivery of a substitute credit or liquidity facility, or (b) one business day following the date of delivery of a substitute credit or liquidity facility; (iii) the date on which all of the applicable Subseries of Bonds have been paid in full (not including a defeasance in which such Bonds continue to be subject to optional or mandatory tender for purchase) or redeemed; (iv) the earlier of (x) the date on which the applicable Bank honors a drawing in connection with conversion of the interest rate on all of the Subseries of Bonds to a rate other than the daily, two-day, or weekly rate, or (y) one business day following the date on which the interest rate on all of the applicable Subseries of Bonds are converted to a rate other than the daily, two-day, or weekly rate; and, (v) the date on which the available commitment under the SBPA is terminated.

PRINCIPAL METHODOLOGY

The principal methodology used in the long term rating was US Municipal Utility Revenue Debt published in December 2014. The principal methodologies used in the short term rating were Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2015 and US Municipal Utility Revenue Debt published in December 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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