FITCH RATES NEW YORK CITY MUNI WATER FINANCE AUTH'S $620MM REVS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-23 February 2016: Fitch Ratings has assigned an 'AA+' rating to the following water and sewer system revenue bonds for the New York City Municipal Water Finance Authority (NYW, or the authority):

--Approximately $191.6 million water and sewer system revenue bonds, fiscal 2016 series A;
--Approximately $420 million water and sewer system second general resolution (SGR) revenue bonds, fiscal 2016 series CC consisting of:

--$335 million fiscal 2016 subseries CC-1;
--$85 million fiscal 2016 subseries CC-2.

The Rating Outlook is Stable.

The fiscal 2016 series A bonds are scheduled for competitive sale February 25. Proceeds will refund certain outstanding first general resolution (FGR) bonds for interest cost savings and pay costs of issuance. The fiscal 2016 series CC-1 bonds are scheduled for negotiated sale March 1 while the series CC-2 bonds will be directly placed on March 2. Bond proceeds will be used to refund certain outstanding FGR and SGR bonds for interest cost savings and pay issuance costs.

In addition, Fitch has affirmed the ratings on NYW's outstanding bonds as follows:

--$4 billion FGR revenue bonds at 'AA+';
--$25.8 billion SGR revenue bonds at 'AA+';
--$200 million extendable municipal commercial paper (CP) notes, series seven at 'F1+';
--$200 million extendable municipal CP notes, series eight at 'F1+'.

SECURITY
The fiscal 2016 series A bonds are special obligations of NYW issued under the FGR and payable solely from and secured by a senior lien on gross revenues of NYW. The SGR fiscal 2016 series CC-1 and CC-2 bonds are payable solely from and secured by a subordinate lien on gross revenues of NYW. The SGR bonds currently being issued will not have a debt service reserve fund (DSRF).

Note interest is secured by moneys and investments in the FGR subordinated indebtedness fund, on parity with outstanding SGR bonds. Principal of the CP notes is secured solely by the proceeds of bonds issued to repay the CP notes. The original maturity on the extendable notes is 1-90 days. However, NYW has the option to extend the maturity of any note by an additional 180 days and redeem notes at any time during the extension period.

KEY RATING DRIVERS

REGIONAL PROVIDER OF AN ESSENTIAL SERVICE: The system provides an essential service to an exceptionally large, diverse and economically important service area. The system benefits from an abundant, high-quality water supply exempt from expensive filtration requirements and transmission costs.

DEMONSTRATED RATE-RAISING WILLINGNESS: Strong financial management and a proven ability and willingness to raise rates are reflected in consistently solid financial results, despite continued volatility in consumption. The New York City Water Board's independent rate-setting authority remains an important consideration.

HIGHLY LEVERAGED SYSTEM: Debt levels are high as a result of historically having to comply with environmental mandates and maintain a large urban system and its aging assets. Declining but still sizeable debt issuances programmed into the current capital plan will keep debt levels elevated for the long term.

WELL-MANAGED CAPITAL PROGRAM: Sophisticated capital planning efforts have helped achieve compliance with large and costly mandated regulatory projects and ensured the system's total assets are adequately maintained.

SOUND LEGAL PROTECTIONS: NYW's legal structure enhances protection to bondholders from potential risks associated with the system and New York City (the city).

BELOW-AVERAGE COLLECTIONS: Below-average current collection rates persist, although payment incentives and strong enforcement mechanisms have yielded positive results in recent years.

RATING SENSITIVITIES

MAINTENANCE OF SUFFICIENT RATES: New York City Municipal Water Finance Authority's inability to establish rates sufficient to ensure the continuation of strong financial margins and currently robust debt service coverage (DSC) levels on senior and subordinate lien obligations would be viewed negatively.

CREDIT PROFILE

SOUND LEGAL PROTECTIONS

Fitch believes NYW bondholders benefit from strong legal protections that include:

--The statutorily defined nature of the authority;
--Ownership of system revenues by the bankruptcy-remote New York Water Board, which sets rates independently without city council approval;
--Revenues collected in a lockbox structure controlled by the trustee and used to pay debt service of FGR and SGR bonds before operations and maintenance (O&M) expenses.

While these layers of legal protection do not completely shield FGR and SGR bondholders from the operational risks of the city's massive water and sewer enterprise as well as other city government operations, they ensure that net revenues will not be diverted to general city operations.

Annual debt service obligations are consistently funded well in advance of scheduled payment dates, allowing the early set-aside of funds to serve as an additional reserve. Only after monthly required deposits under the SGR are satisfied and held by NYW's trustee are funds released from the lockbox structure to pay O&M expenses.

STRONG FINANCIAL AND DEBT MANAGEMENT

NYW's strong financial management and conservative budgeting continue to yield sound financial metrics, despite ongoing volatility in consumption over the last several years and continued growth in debt service obligations. FGR and SGR DSC from net operating revenues improved for the fifth consecutive year in fiscal 2015, increasing to 12.0x and 5.2x, respectively. Reflecting the gross lien on system revenues, DSC grew to 19.7x and 8.5x. The trend of favorable operating results reflects primarily the authority's continued ability and willingness to raise rates and realize positive budget variances as a result of conservative budgeting practices.

Liquidity has also steadily grown in recent years to a level more consistent with NYW's rating. Unrestricted cash and investments together with O&M reserves increased to nearly 290 days of operations in fiscal 2015, more than three times the amount on hand at the close of fiscal 2010. NYW's prudent practice of carrying forward and applying any operating surplus generated in the prior year to the payment of debt service in the coming fiscal year prevents the build-up of more robust cash balances but preserves rate flexibility. Fitch continues to view this strategy favorably. The net surplus generated in fiscal 2015 (measured on a cash basis) totaled $1.01 billion, up from the $985 million generated in fiscal 2014.

Results through the first seven months of the current fiscal year are positive, with consumption up about 1% and reported year-to-date revenues up by nearly 1% compared to prior forecast results. The authority adopted modest rate increases of 5.6% and 3.4% in fiscals 2014 and 2015, respectively, following several years of more sizeable increases. For fiscal 2016, the authority recently adopted a modest 3.0% rate increase, its lowest increase in 15 years. Despite the continued escalation in rates, the average monthly residential bill relative to median household income levels for the service area remains affordable in comparison to utilities of other major cities.

PROJECTED FINANCIAL RESULTS REMAIN SATISFACTORY
Financial projections through fiscal 2020 are based on what Fitch believes to be reasonable assumptions. The forecast generally assumes the continuation of moderately sized rate hikes and incorporates sizeable annual debt offerings along with a 1.5% decline in consumption in each of fiscal 2016 through fiscal 2019, and by 1% in fiscal 2020. As a result, all-in DSC from net revenues is projected to remain at a strong level of no less than 2.2x through the current planning period and annual surpluses are forecast to remain in excess of $900 million, which will continue to be applied to subsequent year's annual debt service obligations and to the defeasance of future bond maturities.

LEVERAGED SYSTEM
The capital program for fiscal years 2016-2025 includes an estimated $16.6 billion in water and sewer projects, representing a 24% increase over the fiscal 2014-2023 spending plan. While costly mandated regulatory projects have trended downward to a more manageable level (to about 24% of total projected capital commitments compared with an average of about 77% over the prior decade), funding of non-mandated projects, particularly water treatment and distribution-related upgrades, has accelerated since 2014. Funding for the capital program will continue to come almost entirely from long-term debt issuance and an extensive CP program. NYW's current forecast shows additional bond issues through fiscal 2020 totaling $8.3 billion, or an annual average of approximately $1.6 billion.

Debt levels are high and escalation beyond what is currently forecast could ultimately pressure NYW's rating. Debt-to-net plant now stands at about 108%, and, measured on a per capita basis, leverage approximates nearly $3,300. By comparison, Fitch's median ratios for the rating category for debt-to-net plant and debt per capita are 47% and $577, respectively. Fitch believes the demonstrated commitment to raising rates as well as management's conservative budgeting will be key to preserving operating margins and meeting the continued growth in debt service costs included in NYW's financial forecast.

Contact:

Primary Analyst
Christopher Hessenthaler
Senior Director

+1-212-908-0773
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Andrew DeStefano
Director
+1-212-908-0284

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at www.fitchratings.com

Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Water and Sewer Revenue Bond Rating Criteria (pub. 03 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869223

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