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New York City Municipal Water Finance Authority; State Revolving Funds/Pools; Water/Sewer

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Credit Profile		
US$475.0 mil wtr and swr sys second gen res rev bnds ser 2015FF		
Long Term Rating	AA+/Stable	New
New York City Mun Wtr Fin Auth wtr & swr (1st resolution)		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' ratings to the New York City Municipal Water Finance Authority's (NYCMWFA) fiscal 2015 series FF, second general resolution water and sewer system revenue bonds. We also affirmed our 'AA+' underlying ratings (SPURs) on the authority's existing second-resolution bonds, as well as our 'AAA' long-term rating on the system's first general resolution revenue bonds. The outlook is stable for all ratings.

The difference in the long-term ratings between the first- and second-resolution debts reflects lien priority and the active use of both liens. The long-term ratings reflect the NYCMWFA's fundamental credit strengths, which include, in our opinion:

- The bondholder protections provided by the issuer's legal and structural features, including a gross pledge of revenues that results in true separation from the utility's operating function when combined with the New York City Water Board's ability to raise rates (a true-up mechanism) and the segregation of funds;
- The system's fundamental credit strengths, characterized by a large and diverse customer base, very good financial profile, and strong management; and
- The capacity and demonstrated willingness to adjust rates when necessary, especially in the face of a sizable capital improvement plan (CIP) of $12.5 billion in forecast capital commitments through fiscal 2025. Despite the sheer size of the CIP, New York City Water has been extremely successful in managing the myriad of projects while still meeting or exceeding all deadline-certain benchmarks; as such, the level of mandated projects relative to the total CIP –- and the magnitude of each rate adjustment – continues to decrease.

Proceeds for the series 2015FF bonds will be used to refund certain outstanding first resolution bonds. Prior to this issuance, the NYCMWFA had about $5.9 billion of first-resolution debt and $24.2 billion of second-resolution debt. A first-lien pledge on the system's gross revenues secures the first-resolution debt. A debt service reserve fund (DSRF) provides additional liquidity to the first-resolution debt. The second-resolution bonds are subordinate and do not benefit from a DSRF.

Long-term financial planning by management, both for the operating budget and the capital program, remains an identified strength of the system. This continues to allow the authority to fund and complete major projects and mandates while maintaining the system; the most recent of regular updates to the consulting engineer's report confirmed the system's good overall condition. The planning and conservatism to assumptions consistently have led to a favorable variance to budget, with better-than-forecast surpluses the norm. Fiscal 2014, for example, saw a projected $845 million surplus improve to an actual $985 million.

Management has aggressively used the surplus revenues for cash defeasance of debt. Between the carry-forward cash and the unique nature of certain of the customer billings, the system's fiscal 2014 debt service requirement was already completely funded only four months into the fiscal year; we understand the authority's first-resolution bonds sinking fund was fully funded as of the first day of fiscal 2015. Following an expected December 2014 use of $105 million of available cash, the NYCMWFA will have defeased $1.2 billion in debt just since fiscal 2011. The authority's leadership has also made dedicated efforts to contain costs and pursue operational and debt savings whenever possible. It also assumes continued declines in consumption of 1.5% per year; actual demand has indeed shown steady year-over-year decreases, including about 1.0% during fiscal 2014.

Outlook

The stable outlook reflects Standard & Poor's expectation that the system's financial profile will remain commensurate with the ratings over our two-year horizon. The large CIP reflects the current regulatory environment and a large system that serves about 9 million people. We believe the strong management, including long-term planning and transparency regarding future rate adjustments, will continue to allow the authority to fund identified needs despite expected inflationary rises in operating costs and sizable amounts of additional debt.

Coverage And Liquidity

Debt service coverage (DSC) on senior and combined senior and subordinate debt was 12.6x and 4.8x, respectively, for fiscal 2014. The authority projects combined senior and subordinate DSC, on a gross revenue pledge basis, to remain steady at a still-healthy 3.5x by 2019. Even when hypothetically calculating coverage on a net revenue pledge basis, total DSC across both liens tends toward no worse than about 1.8x by Standard & Poor's calculations, a level we still consider very robust. Standard & Poor's uses the net revenue calculation simply to ensure the ongoing viability of the system as an enterprise.

Liquidity remains a strength as well. Between the designated operations and maintenance reserve of one-sixth of projected operating expenses and NYCMWFA's unrestricted cash, fiscal 2014 cash on hand of about $235 million was equivalent to approximately two months of operating expenses, not even including the $971 million in the revenue fund that provides the bulk of the authority's working capital. While we do not expect total cash reserves to always be so robust, risk management and best practices seem well embedded to not only minimize contingencies but also ensure internally generated cash remains available as a capital budget funding source. In addition to providing robust working capital, it also serves as a hedge against interest-rate risk and other contingent liabilities. The authority does have some interest-rate swaps, several of which have unfavorable mark-to-market values. Over their lifetimes, however, the swaps –- just as the unhedged variable-rate debt –- have served to generally lower the authority's cost of borrowing and currently are not expected to be terminated.

Rate Setting And CIP

NYCMWFA has a long history of adjusting rates annually as necessary. Due to the conservatism in the budgeting, actual rate increases are typically less than originally forecast. This includes the two most recent rate increases: 5.6% for fiscal 2014 and 3.35% in fiscal 2015 that several years ago were originally projected to each be 7.5%. Because management continually updates its extensive long-term plans, we believe it will continue to exceed its forecast even if the implemented rate adjustments remain smaller than originally planned. The CIP remains the key driver behind the continued rate adjustments. Despite the large size of the capital program, key projects all remain within budget and on time. The main driver of the capital program is rehabilitation of assets, both on a discretionary basis as well as due to regulatory mandates. Despite the sheer number of large and ongoing projects, however, management has reduced mandated projects to just under one-fourth of total capital commitments. The planned capital expenditures from fiscal 2015 to 2023 will fund improvements to all aspects of operations, whether for regulatory mandates or discretionary but still prioritized rehabilitation and replacement projects. Officials typically initially fund certain capital improvements through the $600 million commercial paper (CP) program before using long-term debt to retire the notes.

The authority's capital and borrowing needs still remain significant, although the rate of increase in total debt is beginning to slow. For example, management forecasts year-over-year growth in debt from 2015 to 2023 to be less than 3%, about one-fourth the rate of annual growth from 2007 to 2010. Planned capital commitments should average about $1.5 billion per year, funded mainly with debt (including the bonds already sold). Management plans to continue to use existing CP programs and additional revenue bonds to fund the bulk of identified projects, although contributions from internally-generated revenues could fund as much as $225 million.

The ratings also reflect our view of the pledged revenue stream and management's ability to adjust rates in a timely manner and without state regulation to provide adequate revenue sources to cover debt service and ongoing operating and capital expenditures. Water and sewer rates are affordable and, in general, lower -- on both an actual and a percentage-of-income basis -- than comparable urban systems. The abundant, low-cost water supply and delivery system is a major, unique advantage that has helped management maintain its rate-raising capacity despite the large capital program. The water supply is generally of such high quality that little in the way of treatment and disinfection is necessary.

The rate covenant provides 1.15x aggregate annual DSC on the first-resolution bonds but just 1x on all subordinate debt. In addition, while the first-resolution debt has an additional bonds test (ABT) of 1.15x maximum annual debt service (MADS) and 1x operating expenditures, the second-resolution debt's ABT is a lower 1.1x aggregate debt service and 1x operating expenditures.

The authority includes its federal Build America Bonds (BABs) subsidy as revenue for both rate-setting and ABT purposes; the March 1, 2013, sequestration and associated interest-rate subsidy reduction had no material impact on New York Water's cash flow, nor did the October 2013 federal government shutdown. Management's practice of budgeting conservatively for debt service and including large amounts of pay-as-you-go capital in its budget, coupled with historical net DSC well above 1x, all help offset any effects from the ongoing federal budget sequester. Additionally, the BABs contain make-whole call provisions, which for now limit the economics of refunding them with tax-exempt bonds. Although the city rental payment is subordinate to the second-resolution bonds, providing additional liquidity at the date of debt service, the debt service funds are typically fully funded before the fiscal year is even halfway over, given the timing of operating cash flows and those certain accounts on fixed-rate, annual billings. The rental payment was about $216 million in fiscal 2014, as--on an escalating basis over time--a portion of the rental payment will be returned to the authority as per the lease provisions.

The system serves about 836,000 accounts, primarily in New York's five boroughs, all but 5% of which are metered. In addition, the authority provides water and sewer services to about 1 million customers in Westchester, Putnam, Orange, and Ulster counties, as it is required to make service available to any county in which the authority has water facilities. About 91% of the system is residential, with commercial and industrial users accounting for the balance.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014

Ratings Detail (As Of February 13, 2015)		
New York City Mun Wtr Fin Auth wtr and swr sys sec gen res rev bnds ser 2015CC due 06/15/2027		
Long Term Rating	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resol rev bnds fiscal 2008 ser DD due 06/15/2039		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (FGIC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (MBIA) (FGIC) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/NR/Stable	Affirmed

Ratings Detail (As Of February 13, 2015) (cont.)		
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS VRD		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (wrap of insured) (AGM & BHAC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BHAC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (CIFG) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-2/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-2/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1+/Stable	Affirmed

Ratings Detail (As Of February 13, 2015) (cont.)		
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (CIFG) (SEC MMKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr VRDB ser 1995A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York St Envir Facs Corp, New York		
New York City Mun Wtr Fin Auth, New York		
New York St Envir Facs Corp (New York City Mun Wtr Fin Auth) SRF (AMBAC)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York St Envir Fac Corp (NYC Mun Wtr Fin Auth) SRF (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.