

MOODY'S

RATINGS

Rating Action: Moody's assigns Aa1 to NYC Muni Water Finance Authority's (NY) second resolution Fiscal 2024 Series CC bonds; outlook stable

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New York, April 04, 2024 -- Moody's Ratings ("Moody's") has assigned a Aa1 rating to the New York City Municipal Water Finance Authority's (NY) Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2024 Series CC bonds, consisting of approximately \$400 million Fiscal 2024 Subseries CC-1 bonds and approximately \$78 million Fiscal 2024 Subseries CC-2 bonds. Moody's maintains a Aa1 rating on the authority's previously issued first and second general resolution revenue bonds. The authority has approximately \$400 million and \$33 billion of first and second resolution revenue bonds outstanding, respectively. The outlook remains stable. The authority anticipates pricing the bonds the week of April 15, 2024.

RATINGS RATIONALE

The long-term Aa1 rating reflects a claim on revenue generated by an essential service utility in a vast and diverse metropolitan area, the healthy liquidity of the water and sewer system, and strong rate management by the New York City Water Board. The second resolution bonds' claim on system revenue is subordinate to the claim of first resolution bonds. However, annual debt service on first resolution bonds is modest, providing holders of second resolution bonds access to a very large revenue base.

On a bond ordinance basis, coverage of annual debt service will remain strong, given a gross revenue pledge and the authority's use of prior year surplus revenue to defease debt and lessen debt service requirements. Defeasance of debt has had no impact on liquidity, which itself is on a steady growth trend thanks to annual operating surpluses. On a net revenue basis, coverage is lower, but in line with coverage ratios maintained by other large municipal utility systems in the US. Additionally, the authority has established a bondholder-friendly flow of funds, backed by early set-aside of debt payments.

RATING OUTLOOK

The stable outlook associated with the long-term rating incorporates the expectation that the New York City Water Board will manage rates sufficiently to maintain healthy liquidity and sound debt service coverage while generating new revenue over the longer term in support of system maintenance.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Moderated borrowing or accelerated growth in revenue that brings the system's debt burden down to a level more in line with large system peers without adverse effects on system infrastructure

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Drop in coverage below 1.3x combined first and second resolution bond debt service, as measured by Moody's on a net revenue basis
- A fall in operating liquidity to under 250 days of operating expenses
- Growth in the system's debt burden to over 8x gross revenue
- The long-term rating on the second resolution bonds specifically could be downgraded if the authority materially increased its issuance of first resolution bonds

LEGAL SECURITY

The authority's bonds are secured by a lien on revenue collected by the New York City Water and Sewer System. The authority holds both a statutory and contractual lien on the system's revenue. Only after the authority has set aside sufficient revenue for debt service on the authority's bonds and its own modest operating expenses does it release the remainder to the city to operate the system.

The authority's first resolution bonds are secured by a senior lien on gross revenue of the New York City Water and Sewer System. The second resolution bonds are secured by a lien on revenue of the water and sewer system, with the lien applied to revenue after the payment of first resolution bonds and authority operating expenses. These are operating expenses only of the authority and not the water and sewer system as a whole. The authority is issuing the Series CC bonds pursuant to the second resolution.

USE OF PROCEEDS

Proceeds of the bonds will finance capital improvements to the system and refund certain outstanding bonds.

PROFILE

The New York City Water and Sewer System serves a population of approximately

8.3 million in the five boroughs of New York City (Aa2 stable), a service area of more than 300 square miles. It also provides water to an additional 1 million people in the counties where its water supply facilities are located. The system is vast: its watershed area is 1.2 million acres; there are 19 water reservoirs and 3 controlled lakes; 6,800 miles of water mains; 7,500 miles of sewers; and 14 wastewater treatment plants. The New York City Municipal Water Finance Authority finances the capital needs of the system. The New York City Water Board sets the system's rates. The City of New York operates the system.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416489>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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