FitchRatings

RATING ACTION COMMENTARY

Fitch Rates New York City Muni Water Finance Auth's Revs 'AA+'; Outlook Stable

Fri 31 Oct, 2025 - 5:05 PM ET

Fitch Ratings - New York - 31 Oct 2025: Fitch Ratings has assigned a 'AA+' rating to the following New York City Municipal Water Finance Authority water and sewer system second general resolution (SGR) revenue bonds:

--Approximately $600.0 million water and sewer system SGR revenue bonds fiscal 2026 subseries AA-1.

--Approximately $429.4 million water and sewer system SGR revenue bonds fiscal 2026 subseries AA-2.

The bonds are scheduled to sell the week of November 17 through negotiation. Proceeds of the bonds will be used to pay costs of system improvements, refund certain outstanding second resolution bonds and pay costs of issuance.

Fitch has also affirmed the following ratings:

--Approximately $190.3 million first general resolution (FGR) revenue bonds and various related bank bonds at 'AA+';

--Approximately $27.3 billion SGR revenue bonds and various related bank bonds at 'AA+';

--$400 million authorized extendable municipal commercial paper (EMCP) notes, series seven and eight at 'F1+'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
New York City Municipal Water Finance Authority (NY) [Water, Sewer]				
New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues (2nd Lien)/2 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
New York City Municipal Water Finance Authority (NY) /Water & Sewer Revenues/1 ST	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

The 'AA+' rating on the FGR and SGR revenue bonds reflects the combined credit quality of the New York City Municipal Water Finance Authority and the New York City Water Board. The rating also reflects the authority's role as the issuer of revenue bonds on behalf and in support of the expansive New York City water and sewer system. The financial profile is very strong, assessed at 'aa', in the context of historically and projected very low leverage. This is measured as net adjusted debt to adjusted funds available for debt service (FADS) on a gross revenue basis.

Bondholders receive strong protections through a statutory framework that provides a gross lien on pledged water and sewer revenues. Fitch Ratings considers the likelihood of either the authority or water board filing for bankruptcy protection to be remote. Additionally, the likelihood of either entity being included in a city bankruptcy proceeding, should one occur, is considered remote. The credit profile is further supported by very strong revenue defensibility and operating risk profiles, both assessed at 'aa'.

The authority's projections include the consolidated financials of the authority, board and system operations performed by the city's Department of Environmental Protection (DEP). These projections include fiscal years 2026 through 2030 (FYE June 30) and incorporate an enacted 3.7% rate increase for fiscal 2026, and anticipated increases ranging between 7.0% and 8.5% in each of the four remaining fiscal years of the forecast.

These anticipated revenue increases help to mitigate the impact of the maximum allowable rental payment to the city through fiscal 2030. The primarily debt-funded capital improvement program (CIP) remains robust, with capital spending projected at $15.5 billion over the five-year period.

Based on these assumptions, leverage is anticipated to peak at almost 8.0x in fiscal 2028, falling to 7.8x in fiscal 2030 in Fitch's Analytical Stress Test (FAST) rating case. Fitch anticipates leverage to remain close to this range over the rating case scenario, higher than previously projected. A continued upward trend leading to expectations of leverage sustained above 8.0x could pressure the rating.

Fitch does not differentiate between the FGR and SGR liens, as they are both afforded strong support from the gross revenue pledge and benefit from the subordination of O&M payments. Since 2020, the authority has prefunded over $1.0 billion of debt service, further reducing risk to subordinate lien bondholders. The 'F1+' rating on the extended municipal CP notes reflects the authority's significant liquidity and the 'AA+' bond rating.

SECURITY

The FGR bonds are payable solely from and secured by a first lien on gross revenues of NYW. SGR bonds are payable solely from and secured by a pledge of amounts on deposit in the FGR Subordinated Indebtedness Fund established under the First Resolution and all moneys and securities in any of the funds and accounts established under the Second Resolution, except the Arbitrage Rebate Fund and the Debt Service Reserve Fund. All debt service payments are made prior to operation and maintenance and city rental payments.

KEY RATING DRIVERS

Revenue Defensibility - aa

Very Strong Rate Flexibility, Favorable Service Area with Unique Economic Profile

The water board retains the legal authority to adjust rates as needed without external oversight. Revenue defensibility is further supported by the system's monopolistic provision of water and sewer services to its favorable service area. The service area is characterized by a stable customer base, median household income (MHI) approximately that of the nation and a weaker, but improving, unemployment rate relative to the nation.

Fitch also considers the city's unique economic profile as an international center for numerous industries and anchor for the service area. Rates are considered affordable for approximately 80% of the service area population, using Fitch's standard monthly usage of 7,500 gallons for water and 6,000 gallons for sewer. Anticipated rate increases are not expected to materially impact affordability. There is no customer concentration within the service area.

Operating Risk - aa

Very Low Operating Cost Burden, Significant Capital Investment

In fiscal 2025, the system's operating cost burden was considered very low at $4,205 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was a low 38% in fiscal 2024. Capex outpaces annual depreciation, with a five-year average of 170% for the five years ended in fiscal 2025.

The system's CIP for fiscal years 2026 through 2030 approximates $19.5 billion of system funds, while estimated actual spending is projected at about $15.5 billion for the same period. Almost half of the CIP is related to water pollution control projects, including plant upgrades and reconstruction and water quality mandates.

Water distribution approximates 20% of the CIP, water supply and transmission approximate 10%, and sewer programs are about 19%. Estimated capital spending averages over $3 billion annually during these five years, well above historical depreciation, supporting a continued low life cycle ratio.

Financial Profile - aa

Declining Leverage Anticipated to Stabilize, Neutral Liquidity

The authority's leverage (on a gross lien basis) was 6.5x in fiscal 2025, declining from a peak of 8.3x in fiscal 2021. Fiscal 2025 results reflect increased revenue from collection efforts and reintroduction of lien sales. The liquidity profile is neutral to the assessment and reflects coverage of full obligations (COFO) of 1.5x and current cash on hand of 371 days, when incorporating carryforward revenues. (Carryforward revenues include available funds that are restricted at the end of the fiscal year.)

The FAST considers the potential trend of key ratios in a base case and stress case over a five-year period. The stress case is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management-provided information with respect to capex, user charges and rate of revenue and expenditure growth.

In the base case, leverage peaks at 7.8x by fiscal 2028, falling to 7.6x by fiscal 2030. In the stress case, which is also the rating case, leverage peaks at about 8.0x in fiscal 2028, before gradually declining to 7.8x by fiscal 2030.

After a sustained decline, leverage is expected to stabilize through the five-year period assuming continued successful collection efforts and maximum city rental payments. A reversal, or a continued upward trend, could pressure the rating. Fitch expects the liquidity profile to remain neutral to the assessment.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- A continued upward trend leading to expectations of or actual leverage sustained above 8.0x in Fitch's rating case.

-- Sustained weakness in FADS stemming from a delay in rate-setting or an increase in expenses that weakens the liquidity position.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Leverage sustained below 5.0x in Fitch's rating case within the context of current revenue defensibility and operating risk assessments.

PROFILE

The authority was created as a public benefit corporation in 1984 to issue bonds, notes and other financing instruments to fund capital improvements to the city's system. Fitch considers the authority an issuer that benefits from a contractual framework in which revenues and costs are largely balanced. The water board leases the system from the city and is responsible for setting, levying and collecting customer rates and system revenues to transfer to the authority for bond repayment and to the city for O&M reimbursement.

In addition to reimbursement for O&M, the city is entitled to an annual rental payment that may not exceed 15% of annual debt service. In fiscal 2025, the city requested and received a payment of $289.0 million. Projections for fiscal years 2026 through 2030 include the maximum rental payment allowed, ranging from $295.8 million in fiscal 2026 to $396.0 million in fiscal 2030.

The authority has the power to require the water board to charge and collect sufficient rates to pay the costs of operating and financing the system, as well as to enforce that the city adequately operates and maintains the system. The authority may not file for bankruptcy without state legislative approval, and Fitch views the authority as bankruptcy-remote from the city. Fitch also views the water board as bankruptcy-remote from the city.

The system is the country's largest municipally owned water and sewer utility. It is operated by the DEP and provides retail water and sewer service to approximately 839,800 accounts and about 8.5 million residents within the city. It also provides wholesale service to approximately 1.0 million residents in communities north of the city. The service area includes over 300 square miles across the city's five boroughs (the Bronx, Brooklyn, Manhattan, Queens and Staten Island), as well as communities in Westchester, Putnam, Orange and Ulster counties.

The DEP performs day-to-day system O&M and is responsible for executing the system's multi-billion dollar capital program. Capital and maintenance needs are expected to remain significant over the long term given the demand placed on system assets in an expansive urban setting. Per the lease agreement, the board is obligated to pay the operating expenses of the system. The city is obligated to operate and maintain the system regardless of payment by the board.

The water system provides an average of approximately 1.0 billion gallons per day (bgd) from three upstate aqueducts that span as far as 125 miles north of the city. Demand has steadily declined over time due to water efficiency measures and has been a stable 75% of dependable yield from three city-owned upstate reservoir systems. The sewer system collects and treats an average of approximately 1.2 bgd of wastewater at 14 in-city wastewater treatment plants for virtually the entire city. Average annual flows approximate 70% of the 1.8 bgd design capacity.

Updated U.S. Environmental Protection Agency (EPA) Regulations

The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for PFAS. (However, recent announcements by the EPA suggest the testing and treatment requirements for PFAS could change.)

The DEP is in substantial compliance with currently applicable requirements of the LCRI, including the requirement to submit an initial service line material inventory and related notification to certain customers as necessary, with which the DEP offered free testing.

The city estimates there are roughly 150,000 lead service lines in the city. Limited replacement is underway using state and federal Bipartisan Infrastructure Law grants and interest free loans, targeted at private properties in low-income and environmental justice neighborhoods. Additional federal funds will be used to expand current replacement efforts in the Bronx and also expand the free program to areas of Queens and Brookly in 2026.

Quarterly PFAS monitoring is in place at the Catskill/Delaware and Croton systems and annual monitoring occurs at the Kensico sites. There were either no detections or levels were below state maximums. Ongoing evaluation will continue.

Structural and Legal Protections

Fitch believes NYW bondholders benefit from strong legal protections that include the statutorily defined nature of the authority, bankruptcy remoteness and the gross pledge of system revenues. While these layers of legal protection do not completely shield bondholders from the operational risks of the city's massive water and sewer enterprise, they limit diversion of revenues to general city operations.

A large portion of annual debt service obligations is consistently funded well in advance of scheduled payment dates by the restricted revenue fund, which consists of both current year revenues and carryforward surplus cash. The authority carried forward about $2.04 billion into fiscal 2026, sufficient to fund total debt service payments of about $2.0 billion.

After monthly required deposits under the SGR are satisfied and held by NYW's trustee, funds will be released for other purposes, including the cash defeasance of additional debt, reimbursement to the city for O&M expenses and the rental payment (if any).

SUMMARY OF FINANCIAL ADJUSTMENTS

Fitch utilized restricted cash in its calculation of liquidity as these funds are restricted at year end for debt service.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 10 Jan 2025) (including rating assumption sensitivity)

U.S. Water and Sewer Rating Criteria (pub. 24 Feb 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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New York City Municipal Water Finance Authority (NY)	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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