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## Summary:

# New York City Municipal Water Finance Authority; Water/Sewer

### Primary Credit Analyst:

Theodore A Chapman, Dallas (1) 214-871-1401; [theodore\\_chapman@standardandpoors.com](mailto:theodore_chapman@standardandpoors.com)

### Secondary Contact:

Peter V Murphy, New York (1) 212-438-1000; [peter\\_murphy@standardandpoors.com](mailto:peter_murphy@standardandpoors.com)

## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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### Credit Profile

US\$434.215 mil wtr & swr 2nd Gen res rev bnds Fiscal 2013 ser 2013BB due 06/15/2046

*Long Term Rating*

AA+/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating and stable outlook to New York City Municipal Water Finance Authority's (NYCMWFA) fiscal 2013 series BB second general resolution water and sewer system revenue bonds. We also affirmed the 'AA+' long-term and underlying ratings (SPURs), with a stable outlook, on the authority's existing second-resolution bonds, as well as the 'AAA' rating, with a stable outlook, on the system's first general resolution revenue bonds.

The difference in the ratings between the first- and second-resolution debts reflects lien priority and the active use of both liens. The long-term ratings are reflective of the fundamental credit strengths of NYCMWFA, 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 \$11.3 billion in forecasted capital commitments through fiscal 2021.

Bond proceeds will be used primarily to fund capital projects, as well as to convert \$400 million of commercial paper (CP) notes to long-term debt. New York City Municipal Water Finance Authority has about \$8.2 billion of first-resolution debt (rated 'AAA') and \$20.1 billion of second-resolution debt. A first-lien pledge on the system's gross revenues secures the first-resolution debt. A debt service reserve provides additional liquidity to the first-resolution debt. The second-resolution bonds are subordinate and do not benefit from a debt service reserve.

Long-term financial planning, both for the operating budget and the capital program, remains an identified strength of the system. This continues to allow management to fund and complete major projects and mandates while maintaining the system, and generally have favorable variance to budget. For fiscal 2012, for example, management saw a 7.2% year-over-year increase in operating revenues even with a 2.4% decline in consumption. For fiscal 2011, there was a net surplus of \$376.9 million on a cash basis, rising to \$497.5 million surplus for fiscal 2012; year-to-date cash flow for fiscal 2013 also shows a favorable variance to budget, exclusive of the final tally from superstorm Sandy.

Surpluses are carried forward to the next fiscal year and are applied to the payment of debt service. New York Water leadership has also made aggressive efforts to contain costs and pursue operational and debt savings whenever possible, given the assumed 1.5% per year continued decline in consumption.

As such, debt service coverage (DSC) on senior and combined senior and subordinate debt is 7.51x and 3.03x, respectively, for fiscal 2012, and even better than recent, but still strong, historical performance. The authority projects combined senior and subordinate DSC, on a gross basis, to remain steady at a still-healthy 2.64x by 2017. Even when hypothetically calculating coverage on a net revenue pledge basis, total DSC across both liens tends toward 1.5x. Liquidity remains a strength as well. Between the designated operations and maintenance reserve of one-sixth of projected operating expenses, and other available working capital, fiscal 2012 cash on hand of about \$711 million equates to nearly six months of expenses.

The Water Board has a long history of adjusting rates annually as necessary. The two most recent adopted rate increases -- 7.5% in fiscal 2012 and 7% for fiscal 2013 -- have been less than originally projected due to conservative budgeting assumptions. The CIP remains the key driver behind the continued rate adjustments. Despite the large size and the mandate-heavy nature of the capital program, however, key projects all remain within budget and on time. This includes auto-read meters for over 90% of the system, meeting key milestones toward treatment and overflow remediation projects, and continued good relationships with various environmental regulators. The planned capital expenditures from fiscal 2013 to 2021 are chiefly for water pollution control (40%), water distribution (26%), sanitary sewer projects (15%) and water supply and transmission (13%). Officials typically initially fund capital improvements through the \$800 million CP program before using long-term debt to retire the notes.

The impact of superstorm Sandy on the system's infrastructure in late October 2012 was material, but far from crippling. As was done in August 2011 for Hurricane Irene, water levels at key upstate reservoirs were lowered prior to the storm so that there would be sufficient storage capacity to capture rainfall and runoff. The dams, therefore, retained their structural integrity and spill-control abilities throughout Sandy's aftermath. There was, therefore, manageable damage to the drinking water system, although New York Water has identified almost 9,900 accounts for which billing will be delayed until May 2013 - even while charges accrue - as these properties are assumed to be unoccupied. An additional 454 properties were destroyed or condemned. Some wastewater treatment plants did lose power temporarily during the storm, but by Nov. 3, 2012, 13 of the 14 wastewater plants were operating at 100% of normal. The most recent estimate of damage is \$95 million, exclusive of any likely Federal Emergency Management Agency reimbursements.

Regardless, the authority's capital and borrowing needs remain significant. In October 2012, the city released its most recent update to its capital plan; in the first five years through fiscal 2016, planned capital commitments average about \$1.8 billion per year, funded mainly with debt (including bonds already sold). Management plans to continue to use its CP programs and additional revenue bonds to fund the bulk of identified projects, although annual borrowings are projected to decline each year across the forecast.

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 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 and 1x operating expenditures, the second-resolution debt's ABT is a lower 1.1x aggregate debt service and 1x operating expenditures.

The authority is including its federal Build America Bond subsidy as revenue for both rate-setting and ABT purposes; if for some reason the interest-rate subsidy were sequestered because of ongoing "fiscal cliff" impacts, only about \$2.9 million would be lost to New York Water during fiscal 2013. 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, help mitigate this concern. While, 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 \$210 million in fiscal 2012.

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 one million customers in Westchester, Putnam, Orange, and Ulster counties. About 91% of the system is residential, with commercial and industrial users accounting for the balance.

## 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 roughly 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 an expected rise in operating costs and significant additional debt.

## Related Criteria And Research

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

Ratings Detail (As Of November 30, 2012)		
New York City Mun Wtr Fin Auth wtr & swr (1st resolution)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr rev bnds adj rate fiscal 2003 ser C-2		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

**Ratings Detail (As Of November 30, 2012) (cont.)**

New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate fiscal 2012		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resol rev bnds adj rate fiscal 2013 ser 2013AA-1		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen resol rev bnds adj rate ser 2013 AA-2		
<i>Long Term Rating</i>	AA+/A-1/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		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (FGIC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (MBIA) (FGIC) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-2/Watch Neg	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/NR/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

**Ratings Detail (As Of November 30, 2012) (cont.)**

New York City Mun Wtr Fin Auth WS VRD		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (wrap of insured) (AGM & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (CIFG) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-2/Watch Neg	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-2/Watch Neg	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-2/Stable	Affirmed

**Ratings Detail (As Of November 30, 2012) (cont.)**

New York City Mun Wtr Fin Auth WS (2nd gen resolution)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2006AA-1A & AA-1B		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2008 BB-1		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2008 BB-2 & BB-5		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2008 BB-3 & BB-4		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (CIFG) (SEC MMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>New York City Mun Wtr Fin Auth wtr &amp; swr</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>New York City Mun Wtr Fin Auth wtr &amp; swr VRDB ser 1995A</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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