

New Issue: Moody's assigns Aa2/VMIG 1 to \$650.8M of NYC Muni Water Finance Authority second resolution adjustable rate bonds; outlook stable

Global Credit Research - 05 Sep 2013

\$21.9 billion of second resolution debt outstanding

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY, NY
Combined Water & Sewer Enterprise
NY

Moody's Rating

ISSUE	RATING
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-2	Aa2
Sale Amount	\$125,000,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-4	VMIG 1
Sale Amount	\$100,000,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-5	VMIG 1
Sale Amount	\$100,435,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-6	VMIG 1
Sale Amount	\$100,435,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-3	Aa2
Sale Amount	\$100,000,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise
Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-4	Aa2
Sale Amount	\$100,000,000
Expected Sale Date	09/17/13
Rating Description	Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-1 Aa2

Sale Amount \$125,000,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-6 Aa2

Sale Amount \$100,435,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-5 Aa2

Sale Amount \$100,435,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-1 VMIG 1

Sale Amount \$125,000,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-2 VMIG 1

Sale Amount \$125,000,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-3 VMIG 1

Sale Amount \$100,000,000
Expected Sale Date 09/17/13
Rating Description Revenue: Government Enterprise

Moody's Outlook

Opinion

NEW YORK, September 05, 2013 --Moody's Investors Service has assigned Aa2/VMIG 1 ratings to \$650.8 million of New York City Municipal Water Finance Authority second resolution adjustable rate bonds, consisting of \$125 million Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-1; \$125 million Subseries AA-2; \$100 million Subseries AA-3; \$100 million Subseries AA-4; \$100.4 million Subseries AA-5; and \$100.4 million Subseries AA-6. Proceeds of the bonds, scheduled to price on September 17, will be used to pay maturing commercial paper notes, to finance various system capital costs, and to pay a maturing bond anticipation note.

SUMMARY RATING RATIONALE

The long-term ratings reflect ratings reflect strong bondholder protections provided by a strong legal structure; healthy debt service coverage provided by a gross lien on the system's revenues and enhanced by independent rate-setting ability; the essential nature of New York City's water and sewer system and the monopoly the city and the authority have in providing that service; the challenges of operating and maintaining the system given its size, age and density of the population it serves; a high debt burden; and continued need for sizeable rate increases. For our full analysis of the long-term credit, please see our report dated June 13, 2013. The short-term ratings reflect the credit quality of each bank providing standby bond purchase agreements (SBPAs provided by JPMorgan Chase Bank, NA, TD Bank, N.A., Bank of Montreal and Mizuho Bank, Ltd) and the likelihood of termination of the applicable SBPA without a mandatory tender.

STRENGTHS

- Legal structure that provides strong bondholder protections, including: bankruptcy protection and legal separation from the fiscal condition of New York City; autonomous rate-setting authority; and a gross revenue pledge
- A long history of regular, independently-set rate increases that maintain financial stability, support a substantial capital program, and provide healthy debt service coverage
- Ample water supplied from the city's own extensive reservoir network; low transmission costs relative to other large systems; water rates that currently are moderate compared to other large cities; and authority to sell liens to monetize unpaid bills and provide incentive to delinquent customers to pay

CHALLENGES

- The water and sewer system's size, age and density pose operating and maintenance management challenges
- Substantial debt issuance estimated going forward and the projected need for continued sizeable rate increases to support it and maintain adequate debt service coverage
- A history of state and federal regulatory mandates which on average total approximately 18% of the system's 10-year capital improvement program, and could substantially increase the authority's future borrowing needs

DETAILED CREDIT DISCUSSION

LIQUIDITY SUPPORT FOR TENDERS

The bonds will have liquidity support from standby bond purchase agreements (SBPAs or liquidity facilities) provided by JPMorgan Chase Bank, NA, TD Bank, N.A., Bank of Montreal and Mizuho Bank, Ltd. (collectively the Banks). JPMorgan will provide the SBPA for Subseries AA-1 and AA-2, TD Bank will provide the SBPA for Subseries AA-3, Bank of Montreal will provide the SBPA for Subseries AA-4 and Mizuho will provide the SBPA for Subseries AA-5 and AA-6. Moody's rates the short-term obligations of each Bank P-1. The short-term ratings on the Bonds are derived from the credit quality of each Bank, as provider of the applicable liquidity facility, and the likelihood of termination of the applicable SBPA without a mandatory tender. Events that would cause the liquidity facilities to terminate without a mandatory tender are directly related to the credit quality of the Authority. Accordingly, the likelihood of any such event is reflected in the Aa2 long-term rating assigned to the Authority's Second General Resolution Bonds.

The Banks' obligations under the SBPAs can be automatically terminated in the event that: (i) the Authority defaults on the payment of principal or interest on the Bonds or any debt on parity with the Bonds; (ii) the Authority files a petition or otherwise seeks relief under any federal or state bankruptcy or similar law; (iii) each rating agency assigns a rating below investment grade to any debt on parity with the Bonds or withdraws or suspends, for credit related reasons, any rating on debt on parity with the Bonds; (iv) the Authority initiates legal proceedings claiming that the Bonds or any material provision of the SBPA or the Resolution relating to the payment of principal and interest on the Bonds is invalid or that the Authority has no liability thereon; (v)(a) the Authority imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on repayment when due and payable of the principal and interest on the Bonds or any debt obligations of the Authority secured by a lien on revenues or (b) the state or any other governmental authority with jurisdiction over the Authority imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on repayment when due and payable of the principal and interest on the Bonds or all debt obligations of the Authority secured by a lien on revenues, (vi) the Authority makes a general assignment for the benefit of creditors, admits in writing its inability to pay its debts as they become due or files a petition of any law relating to bankruptcy, insolvency, reorganization, liquidation, winding-up or adjustment of debts; (vii) a judgment is issued by a court of competent jurisdiction that

the Bonds or any provision of the respective SBPA or the Resolution relating to the payment of principal and interest on the Bonds, or the pledge of revenues, is no longer valid and binding; or (viii) a final non-appealable money judgment is entered by a court of competent jurisdiction against the Authority in an amount in excess of \$10 million without the Authority satisfying such payment within 90 days from the first date of such judgment.

All the Bonds will initially be in the daily rate mode and pay interest on the 15th day of each month. Each subseries of Bonds is convertible, in whole, to the weekly, two-day, flexible rate, commercial paper rate, fixed and auction rate mode. Upon any such conversion (other than between the daily, two-day and weekly modes), affected Bonds shall be subject to mandatory tender. Each SBPA supports the Bonds while in the daily, two-day and weekly rate modes and the short term rating of each subseries will expire upon conversion to a mode other than the daily, two-day or weekly rates.

The SBPAs may be substituted. Upon substitution affected Bonds will be subject to mandatory tender unless Moody's provides written evidence that the current rating on the applicable subseries will not be reduced or withdrawn as a result of such substitution.

Each subseries of Bonds is subject to mandatory tender as follows: (i) on the interest rate conversion date in the event of conversion to a rate mode other than daily, two-day, or weekly; (ii) at the end of each flexible rate or commercial paper rate period; (iii) on the last business day of the daily rate period, two-day period, or weekly rate period next preceding the expiration date or earlier termination of the applicable liquidity facility; (iv) on the date of substitution of the liquidity facility for a subseries of Bonds, unless the rating on such subseries is being maintained, as evidenced in writing by each rating agency; and (v) no later than the business day immediately preceding the termination date of the applicable liquidity facility specified in a notice of termination delivered by the provider of such liquidity facility to the tender agent due to an event of default under such liquidity facility.

When in the daily rate mode Bonds may be tendered for purchase on any business day with notice provided to the remarketing agent and tender agent by 11:00 a.m., Eastern Time, on such purchase date. Bondholders may tender Bonds in the weekly or two-day rate modes on any business day by providing at least seven days prior notice for weekly, or two business days prior notice for two-day, to the remarketing agent and tender agent. Bonds which are purchased pursuant to the liquidity facility supporting them due to a failed remarketing may not be released by the tender agent until such liquidity facility has been reinstated.

Each SBPA is sized for the full principal amount of the applicable subseries of Bonds plus 35 days interest at 9%, the maximum rate payable on the Bonds. The SBPAs will secure payments of purchase price for Bonds in the daily, two-day, and weekly modes. Under the terms of the SBPAs, conforming draws received by the applicable bank by 12:00 p.m. (Eastern Time) on a mandatory or optional tender date will be honored by 3:00 p.m. (Eastern Time) on the same day.

Each SBPA will terminate upon the earliest to occur of: (i) the stated expiration date; (ii) either business day following the date of delivery of a substitute SBPA or on such substitution date provided the applicable bank has honored draws for such substitution; (iii) the date on which all of the Bonds of such subseries have been paid in full or redeemed; (iv) either the business day following the date of conversion of the applicable subseries to a rate mode other than daily, two-day or weekly or the date of such conversion provided the applicable bank has honored draws for such conversion; (iv) the date the available commitment under the applicable facility is reduced to zero; (v) 15 days in the case of the SBPA supporting the AA-1 and AA-2 Bonds and 30 days in the case of all the other SBPAs, following the tender agent's receipt of notice of termination from the applicable bank due to an event of default under the liquidity facility.

OUTLOOK

The outlook for the New York City Municipal Water Finance Authority is stable. Implementing the authority's capital plan requires substantial issuance of new debt, which in turn requires sizeable rate increase to support. Additionally, like water and sewer systems throughout the nation, regulatory mandates also could drive future capital costs upwards and create other uncontrollable spending needs.

WHAT COULD MAKE THE LONG-TERM RATING GO UP

- A stronger additional bonds test or other stronger limitations on leveraging the pledged revenues
- A significant and sustained improvement in collection rates and sustained stability in consumption levels

WHAT COULD MAKE THE LONG-TERM RATING GO DOWN

-- Failure to continue to set rates at levels needed to afford the system's sizeable capital program, large debt load and the water and sewer system's significant operating costs that result in weakened financial ratios or debt service coverage

WHAT COULD CHANGE THE SHORT TERM RATING-DOWN

The short-term rating on the Bonds could be lowered if the short-term rating of the Banks or the long-term rating of the Bonds is downgraded.

The principal methodology used in the long term ratings was Analytical Framework for Water and Sewer System Ratings published in August 1999. The principal methodology used in the short term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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