STANDARD & POOR'S RATINGS SERVICES

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Summary:

New York City Municipal Water Finance Authority; Water/Sewer

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Summary:

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Credit Profile		
US$375.0 mil wtr & swr sys 2nd gen resolution rev bnds ser 2014BB due 06/15/2044		
Long Term Rating	AA+/Stable	New
US$75.0 mil wtr & swr sys 2nd gen res bnds RMKTD 11/21/2013 ser 2011DD-2 due 06/15/2043		
Long Term Rating	AA+/A-1/Stable	New
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

Rationale

Standard & Poor's Ratings Services assigned its 'AA+/A-1' rating and stable outlook to New York City Municipal Water Finance Authority's (NYCMWFA) fiscal 2011 series DD subseries 2 second general resolution water and sewer system revenue bonds, and its 'AA+' long-term rating to the authority's fiscal 2014 series BB second general resolution bonds.

We also affirmed the 'AA+' underlying rating (SPUR) on the authority's existing second-resolution bonds, as well as the 'AAA' long-term rating on the system's first general resolution revenue bonds. The outlook on all ratings is stable.

The short-term component of the series DD bond rating is based a standby bond purchase agreement provided by JPMorgan Chase Bank N.A.. The liquidity facility severally provides coverage for the price of purchased bonds in the event of a failed remarketing. The facility covers 35 days' interest at a maximum rate of 9%. The liquidity facility shall terminate upon conversion to the fixed-rate mode. The facility also automatically terminates in the event of issuer insolvency, final invalidity of the bond issue, and a lowering of the issuer credit rating below 'BBB-'.

The difference in the long-term ratings between the first- and second-resolution debt 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 $12.8 billion in forecasted capital commitments through fiscal 2024. Despite the CIP's size, the authority 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

continues to decrease, providing greater flexibility in the capital budget.

Bond proceeds will be used primarily to fund projects in the system's CIP. New York City Municipal Water Finance Authority has about $7.3 billion of first-resolution debt and $22.3 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; the 2013 update to the consulting engineer's report confirmed the system's good overall condition. The planning and conservatism to assumptions consistently lead to a favorable variance in budget. For fiscal 2012, for example, management saw a 7.2% year-over-year increase in operating revenues even with a 2.3% decline in consumption. Fiscal 2013 was even more pronounced, as a projected $665 million surplus ultimately ended up being $750 million.

Management has aggressively uses surplus revenues for cash defeasance of debt. Between the carryforward 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. NYCMWFA's leadership has also made dedicated efforts to contain costs and pursue operational and debt savings whenever possible, given the assumed 1.5% per year continued decline in consumption in the near term.

Given that, debt service coverage (DSC) on the senior and combined senior and subordinate debt is 10.3x and 3.6x, respectively, for fiscal 2013, a marked improvement from the extremely strong fiscal 2012 results. The authority projects combined senior and subordinate DSC, on a gross basis, will remain steady at a still-healthy 2.7x by 2018. Even when hypothetically calculating coverage on a net revenue pledge basis, total DSC across both liens tends toward no worse than about 1.7x.

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 2013 cash on hand of about $950 million equates to roughly eight months of operating expenses. 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 have thus far served to generally lower the authority's cost of borrowing and are currently not expected to be terminated.

The Water Board 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 forecasted. This includes the two most recent rate increases – 5.6% for fiscal 2014 and 7.5% in fiscal 2013. 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 2014 to 2023 are chiefly for water pollution control (37%), water distribution (27%), sanitary sewer projects (18%), and water supply and transmission (13%). Officials typically initially fund capital improvements through the $600 million CP program before using long-term debt to retire the notes.

Hurricane Sandy's impact on the system's infrastructure in late October 2012 was material but far from crippling. As was also the case 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 identified 9,800 accounts for which billing was delayed and without penalties until May 2013 - even while charges accrued - as they were unoccupied. An additional 454 properties were destroyed or condemned. Some wastewater treatment plants did lose power during portions of 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 Federal Emergency Management Agency reimbursements that will likely come.

Regardless, the authority's capital and borrowing needs remain significant. In January 2013, the city released its most recent update to its capital plan; in the first five years through fiscal 2018, planned capital commitments average about $1.8 billion per year, funded mainly with debt (including bonds already sold). Management plans to continue to use existing 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 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 the authority'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 impact from the ongoing federal budget sequester. Additionally, the outstanding BABs contain make-whole call provisions, which for now limit the economics of refunding them with tax-exempt bonds. 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 2013, 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 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 its rating. The large CIP reflects the current regulatory environment and a large system that serves more than 8 million people. We believe the strong management, including long-term planning and transparency regarding potential rate adjustments, will continue to allow management to fund identified needs despite the expectation of rising 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 6, 2013)		
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AA+/A-1/Stable	Affirmed
Unenhanced Rating	AA+(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 (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

Ratings Detail (As Of November 6, 2013) (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)		
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

Many issues are enhanced by bond insurance.

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