STANDARD & POOR'S RATINGS SERVICES

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Summary:

New York City Municipal Water Finance Authority; Water/Sewer

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Summary:

New York City Municipal Water Finance Authority; Water/Sewer

Credit Profile		
US$517.0 mil wtr & swr sys 2nd gen resolution rev bnds ser 2013DD due 06/15/2038		
Long Term Rating	AA+/Stable	New
New York City Mun Wtr Fin Auth wtr & swr (1st resolution)		
Long Term Rating	AAA/Stable	Affirmed

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 DD second general resolution water and sewer system revenue bonds. Standard & Poor's also affirmed its '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 and stable outlook on the system's first general resolution revenue bonds.

The difference between the ratings on the first- and second-resolution debts reflects lien priority and the active use of both liens. The long-term ratings are reflective of NYCMWFA's fundamental credit strengths, 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 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 $12.2 billion in forecasted capital commitments through fiscal 2023. Just under half of these commitments are associated with regulatory mandates; the level of mandated projects, however, continues to decrease over time, providing management greater flexibility in its capital budget.

Bond proceeds will be used primarily to currently refund certain maturities of the authority's series 2003E and 2004A first-resolution bonds for interest rate savings purposes. New York City Municipal Water Finance Authority has about $8.2 billion of first-resolution debt and $20.7 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 CIP, 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 in assumptions consistently lead to a favorable variance to budget. For fiscal 2012, for example, management saw a 7.2% year-over-year increase in operating revenues even with a 2.34% decline in consumption. For fiscal 2011, there was a net surplus of $376.9 million on a cash basis, rising to a $497.5 million surplus for fiscal 2012; year-to-date cash flow for fiscal 2013 also shows a favorable variance to budget of 1.7% through January 2013. Surpluses are carried forward to the next fiscal year and are applied to the payment of debt service, including $498 million in fiscal 2013. The authority's 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 Standard & Poor's hypothetically calculates coverage on a net revenue pledge basis, total DSC across both liens tends toward 1.5x.

In our view, 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 equals 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 of the capital program, key projects all remain within budget and on time. This includes auto-read meters for more than 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 2023 are chiefly for water pollution control (36%), water distribution (28%), sanitary sewer projects (17%), and water supply and transmission (14%). Officials typically initially fund capital improvements through the $800 million commercial paper (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 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 NYCMWFA has identified almost 9,900 accounts for which billing will be delayed until May 2013 -- even while charges accrue -- as they are assumed to not be currently occupied. 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 2017, 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 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 those of 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 is expected to be of no material impact on NYCMWFA's cash flow. Management's practice of budgeting conservatively for debt service and including large amounts of pay-as-you-go capital in its budget -- much more of which is now discretionary -- coupled with historical net DSC well above 1x, all help offset any impacts from the sequester. Additionally, the outstanding BABs contain make-whole call provisions, which could 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; as of January 2013, for example, the June 2013 payments were already fully funded. 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 1 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 outlook horizon. The large CIP reflects the current regulatory environment and a large system that serves approximately 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 March 6, 2013)		
New York City Mun Wtr Fin Auth wtr & swr rev bnds adj rate fiscal 2003 ser C-2		
Long Term Rating	AAA/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys rev bnds adj rate fiscal 2012		
Long Term Rating	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		
Long Term Rating	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		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr sys 2nd gen reso rev bnds fiscal 2008 ser DD due 06/15/2039		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (FGIC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth wtr & swr (MBIA) (FGIC) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AAA/NR/Stable	Affirmed
New York City Mun Wtr Fin Auth WS		
Long Term Rating	AA+/A-1/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of March 6, 2013) (cont.)		
New York City Mun Wtr Fin Auth WS VRD		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (wrap of insured) (AGM & BHAC) (SEC MKT)		
Unenhanced Rating	AAA(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	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (BHAC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (CIFG) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (MBIA) (AGM)		
Unenhanced Rating	AAA(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
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-2/Stable	Affirmed

Ratings Detail (As Of March 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) ser 2008 BB-1		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2008 BB-2 & BB-5		
Long Term Rating	AA+/A-1/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) ser 2008 BB-3 & BB-4		
Long Term Rating	AA+/A-1+/Stable	Affirmed
New York City Mun Wtr Fin Auth WS (2nd gen resolution) (AGM)		
Unenhanced Rating	AA+(SPUR)/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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