MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 rating to $850 million of City of New York general obligation refunding bonds

Global Credit Research - 06 Dec 2012

Ratings also affirmed on $40.7 billion of outstanding general obligation debt and $5.2 of outstanding appropriation-backed debt

New York, December 06, 2012 --

Moody's Ratings

Issue: General Obligation Bonds, Fiscal 2013 Series D; Rating: Aa2; Sale Amount: $500,000,000; Expected Sale Date: 12/11/2012; Rating Description: General Obligation

Issue: General Obligation Bonds, Fiscal 2013 Series E; Rating: Aa2; Sale Amount: $350,000,000; Expected Sale Date: 12/11/2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned Aa2 ratings to the City of New York's $500 million General Obligation Bonds, Fiscal 2013 Series D and $350 million Series E. Proceeds of the bonds, scheduled to price on December 11, will be used to refund outstanding general obligation bonds for savings in the current fiscal year and in fiscal 2014. Concurrently, we have affirmed the ratings on $40.7 billion of outstanding general obligation bonds and on $5.2 billion of debt ultimately secured by city appropriations. This includes $2.2 billion city debt issued through the New York City Health and Hospitals Corporation, the New York City Educational Construction Fund, the New York City Industrial Development Agency, and the Dormitory Authority of the State of New York, and $3 billion of bonds issued by the Hudson Yards Infrastructure Corporation. The outlook is stable.

SUMMARY RATING RATIONALE

The ratings reflect the city's institutionalized budgetary and financial management controls, its proactive responses to budget strain during economic downturns; its reliance on a volatile financial services sector; and a high budgetary burden from the combination of debt service, pension, and employee and retiree health care costs.

STRENGTHS

-- Large, diverse economy driven by the high income financial services industry

-- Strong governance and financial best practices, tested through periods of fiscal stress

-- Conservative budgeting

CHALLENGES

-- Cyclical economic base driven by the financial services industry

-- The need to close significant outyear budget gaps and near term reliance on one-time gap closing measures

-- High and growing burden from debt service, pension and retiree health care costs

OUTLOOK

The rating outlook for New York City's general obligation bonds is stable. The city's institutionalized budgetary controls and early recognition of future budget pressure have helped it manage through the prolonged economic downturn, although challenges remain, including a tentative national economic recovery and uncertainty in the Euro Zone. The city's economy is reliant on a volatile financial services sector, but it continues to diversify and its finances will benefit. While the city has taken proactive measures that have provided near-term benefits, its mounting costs for debt service, pensions and retiree health care will continue to be a challenge for the city, even with recent reforms.

WHAT COULD MAKE THE RATING GO UP

-- Sustained reduction in the growth of the city's debt burden and other fixed costs, and establishment of formal policy for managing debt within prescribed constraints

-- Improved and continuing growth in city employment and the property tax base

-- Establishment of significant formal budget reserves to buffer the inherent volatility of the financial services sector

WHAT COULD MAKE THE RATING GO DOWN

-- Inability to manage rapidly rising costs in non-discretionary spending such as debt service, personnel costs, and pensions

-- Divergence from the city's well-established fiscal practices

-- Emergence of significant liquidity strain and the need for large cash-flow borrowings

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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