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Summary:

New York City; General Obligation

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Credit Profile		
US$850.0 mil GO bnds fiscal 2013 ser D&E due 08/01/2033		
Long Term Rating	AA/Stable	New
New York City GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook to New York City's series 2013D and 2013E general obligation (GO) bonds.

At the same time, Standard & Poor's affirmed its 'AA' rating on the related parity debt outstanding. The outlook is stable.

Credit factors supporting the GO rating include what we view as:

- New York City's substantial and diverse economic base. After a period of economic retrenchment caused by the national recession, which affected employment, income, and the overall real estate market, economic trends have improved and, on a percent basis, the city has recovered all of the private sector jobs lost in the recession and has been recovering at a faster pace than the nation as a whole. It is not clear what the short- and long-term effects of Superstorm Sandy will have on the city, but we expect robust rebuilding activity will follow the short-term dislocation. The magnitude and pace of the recovery will depend on federal, state, and private insurance funding.
- The city's comprehensive financial planning process, which has helped it effectively balance forecast revenue declines and ongoing spending pressures. New York City's recent budgets and financial plan updates incorporated slower economic and revenue growth than has actually occurred and we believe the city has historically moved swiftly and successfully to address projected budget gaps.
- New York City's prudent use of surplus revenues that have enabled it to prepay expenses for subsequent budget years and reduce future debt levels and expenditures.

An offsetting credit factor, in our opinion, is an above-average (but lessening) reliance on the financial services sector for resident income and tax revenue, which has translated into volatility over time. Also, a high debt burden by most measures and significant capital funding requirements that New York City has managed well over time pose challenges. Pension and other postemployment benefit (OPEB) costs represent a significant and growing liability and fixed cost for the city.

New York City's full faith and credit pledge secures the bonds. We understand that proceeds will be used to refund bonds outstanding for interest cost savings. Bondholders benefit from the security of the general debt service fund established by state statute, with city real estate taxes deposited into the fund and retained under a statutory formula in an amount sufficient to cover debt service.

The city updated its financial plan on Nov. 9, 2012. While the city expects major tax revenues to be slightly higher than the initial June forecast, $635 million of revenue from the sale of taxi medallions will be delayed to future years due to litigation. Increased net expenditures were identified due to higher agency spending and the expectation of higher pension contributions based on lower-than-anticipated pension returns in fiscal 2012. A gap-closing program was also identified to restore balance for fiscal 2013. The city's forecast of budget gaps is now $1.15 billion (1.6% of total revenues) in fiscal 2014, $2.8 billion in fiscal 2015 (3.9% of total revenues), and $2.6 billion in fiscal 2016 (3.5% of total revenues). While these estimates are lower than the June forecast and far lower than previous gaps New York City has faced, in our view the plan contain some risks including the following:

- The costs and revenue implications associated with Superstorm Sandy are not fully known at this time. The city appropriated $500 million in capital funds for schools and hospitals damaged by the storm. An additional $500 million was appropriated for emergency repairs. The financial plan assumes that those costs are fully funded from noncity sources. New York City estimates that damage to city property, including the New York City Housing Authority and New York City Health and Hospitals Corp. is about $4.5 billion. We expect that short- and long-term adjustments related to the storm will be made to the financial plan.
- Uncertainty concerning the pace of economic recovery, the federal "fiscal cliff" (the simultaneous expiration at the end of 2012 of various federal tax provisions and the sequestration or across-the-board spending cuts), and the European debt crisis could adversely affect revenues.
- The projected taxi medallion revenue totals $1.5 billion through fiscal 2016 and will depend on the city's successful appeal of the state court decision.
- Collective bargaining agreements could place pressure on expenditures. In addition, state and federal funding could also be reduced if a teacher evaluation system is not successfully implemented.
- Funding levels from state and federal sources are always an area of uncertainty for the financial plan. New York City estimates that the pending federal sequestration could reduce federal aid to the city by $300 million. The economic implications from the range of pending federal tax increases could be much more substantial.

Despite these risks, we believe that the city has demonstrated a history of adapting and adjusting its budgets to achieve balance through difficult economic environments.

New York City's general fund has recorded an operating surplus before discretionary and other transfers, and achieved balanced operations annually from 1981-2012 in accordance with generally accepted accounting principles (GAAP) standards, except for the application of Governmental Accounting Standards Board Statement 49 (pollution remediation costs). In many of those fiscal years, the city was required to close substantial gaps between forecast revenues and expenditures to maintain balance. For fiscal 2012, its general fund revenues exceeded expenditures by $2.47 billion, before discretionary and other transfers and expenditures. Revenues totaled $66.5 billion in fiscal 2012, approximately $877.6 million under the modified budget, but $14.2 million over the adopted budget. New York City saw significant positive variances in real estate taxes ($28.3 million positive variance) and nonpersonal income taxes ($79.3 million). However, state and federal aid and personal income taxes were both under budgeted amounts. Expenditures were $62.6 billion at the close of fiscal 2012, $899.7 million under budgeted amounts. The city applied approximately $1.8 billion of the fiscal 2012 surplus to the fiscal 2013 budget. New York City's net other postemployment benefits (OPEB) obligation at June 30, 2012, was substantial in our view, at $88.2 billion. As of the most recent valuation (June 30, 2011), the city had $2.6 billion of assets in the fund and the plan was 3.1% funded, leaving an unfunded OPEB accrued liability of $3.3 billion. The annual OPEB cost in fiscal 2012 was $5.7 billion, of which the city paid $1.4 billion. New York City's Retiree Health Benefits Trust is expected to be depleted by fiscal 2014 according to the current financial plan.

Economy

New York City continues to show signs of a slow economic recovery from the national recession. Its total employment level now surpasses its pre-recession peak. Between October 2011 and October 2012, city employment increased 2.6% to 3.9 million. New York City's five major employment sectors continue to comprise trade, finance, professional services, education and health services, and government. Most of these sectors exhibited job growth in 2012 including financial services, despite a net loss of 1,400 jobs in the securities sector through August 2012. The construction and manufacturing sectors also continue to experience job losses, reflecting the lingering weaknesses in the real estate market and the city's ongoing transition to a service-oriented economy. New York City remains particularly reliant on the financial sector, which represented approximately 27.2% of total wages and 11.5% of total employment in 2010. In addition, despite the employment gains, the city's unemployment rate remains well above average: according to the Bureau of Labor Statistics, it was 9.0% in 2011 and has ranged from 8.8%-10.2% in 2012, well above the national average. It stood at 9.2% in October 2012, compared with 7.9% for the nation.

Commercial vacancy rates have stabilized and stood at 10% in the second quarter of 2012. The New York City Office of Management and Budget (OMB) forecasts primary market vacancy rates of 9.6% in 2012 and 7.8% in 2013. OMB projects vacancy rates to increase to 9.6% in 2014 in part due to the completion of new office buildings at the World Trade Center site. Despite the strength in the commercial market, residential activity continues to feel the effects of the recession. The residential real estate market activity fell 6% in the first quarter of 2012 (year-over-year) and is just slightly above the transaction activity seen at the trough of the recession in early 2009. Home prices fell an additional 2.3% between September 2011 and September 2012, according to the most recent Case-Shiller Home Price Index. Standard & Poor's notes, however, that a majority of the city's housing units (68%) are rentals. Contrary to economic trends, the full value of New York City taxable real estate has increased in each of the past four fiscal years, to $858.4 billion in 2013 from $727.1 billion in fiscal 2009. Assessed values have also increased in each of the past five fiscal years, reflecting a broadening of New York City's tax base.

The financial plan assumes a continuation of the mixed economic growth that began in the second half of 2010 and continued into 2012. Per the OMB, real gross city product increased 0.1% in 2011 and OMB projects that real gross city product will decline 0.1% in 2012, before increasing 1.8% and 2.2% in 2013 and 2014, respectively. The wage rate increased 3.7% in 2011 but OMB expects it will decline 1.2% in 2012, followed by increases of 2.6% in each of 2013 and 2014. After increasing 4.7% in 2011, OMB projects growth in personal income to moderate at 1.5% in 2012, followed by a projected 3.2% increase in 2013 and 4.0% in 2014. In addition, even after the sharp decline, per capita income remains 130.2% of the U.S. average. (For further information, see the full analysis published Oct. 2, 2012, on RatingsDirect on the Global Credit Portal.)

Outlook

The stable outlook reflects Standard & Poor's view that New York City will continue to effectively balance its budget despite a range of risks to its financial plan. We expect that Superstorm Sandy and economic and budget implications associated with the federal fiscal cliff deliberations could translate into significant plan adjustments, but the city's strong, long-term-focused planning and proactive budget management practices mitigate these risks in our view. We believe the well-developed budget management framework has provided New York City with the flexibility to align revenues and expenditures through various economic cycles and events.

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Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- U.S. State And Local Government Credit Conditions Forecast, Oct. 9, 2012

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.