Moody's Investors Service

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New Issue: Hudson Yards Infrastructure Corporation, NY

MOODY'S ASSIGNS A3 TO $1.75 BILLION HUDSON YARDS INFRASTRUCTURE CORPORATION'S SERIES 2007A BONDS

New York (City of) NY
Industrial Development
NY

Moody's Rating

ISSUE		RATING
Hudson Yards Senior Revenue Bonds Fiscal 2007 Series A		A3
Sale Amount	$1,750,000,000	
Expected Sale Date	12/06/06	
Rating Description	Development Bonds	

Opinion

NEW YORK, Nov 30, 2006 -- Moody's has assigned an A3 rating to the bonds being offered by the Hudson Yards Infrastructure Corporation (HYIC), a local development corporation organized by the City of New York. The corporation was created by the City to provide financing for the transformation of the Hudson Yards Financing District (HYFD). The A3 rating reflects the analysis of the unique credit structure which allows for a net interest payment subsidy provided by the City until the district generates sufficient revenues to cover debt service. The Hudson Yards bonds are an appropriation obligation of the City for the net interest due on the bonds only. The City's general obligations are rated A1.

The $1.75 billion of the 2007A bonds are the first bonds issued by the corporation under the Indenture to finance a portion of the costs of project infrastructure that will support and stimulate planned development of commercial and residential properties on the west side of Manhattan. The City has authorized the issuance of $3.0 billion in bonds, but the indenture allows up to $3.5 billion. This issuance will carry a 40 year maturity with a "turbo" principal amortization until revenues are sufficient to amortize debt on an ongoing basis at 1.25 times coverage at which time "conversion" occurs. Proceeds of the 2007A bonds are expected to fund the extension of a subway line to provide transportation access, along with acquisition of parks, streets and amenities necessary for the development of the district.

Credit strengths:

- Essentiality of the project to the future economic development of New York City

- Strong city support for the project including a pledge to cover net interest payments

- Large diverse area of Manhattan adjacent to the mid-town central business district of NYC with infrastructure development provided by the City to stimulate development

- Limited alternative space to develop large commercial and residential projects in Manhattan

- Development already underway in the district, prior to the development of infrastructure and amenities

Credit challenges:

-Potential for significant project construction delays

-Uncertainty of future real estate demand for office space

- Potential competition from outer boroughs and New Jersey for lower cost office and residential building space

- Ramp up of debt service obligation

- Historic volatility of NYC real estate markets

HUDSON YARDS PROJECT AREA

The area encompasses roughly from 29th street on the south to 43rd street on the north, 12th avenue on the west over to 8th avenue on the east. The Hudson Yards Financing District also includes an area between 7th and 8th avenues representing the current site of Madison Square Garden. The project area is underutilized and currently consists of open parking lots, industrial uses, warehouses, small commercial and residential buildings, and transportation infrastructure such as entrance and exit roadways and plazas for the Lincoln tunnel and approximately 26 acres of open rail yards serving the operational needs of the Long Island Railroad and Penn Station.

The large scale site provides the city with the last remaining opportunity in Manhattan to accumulate sufficient real estate parcels for large site development of residential and commercial space. The project plan envisions a mix of business, residential, and cultural projects with an open space component.

VARIOUS REVENUE SOURCES ADD TO THE UNIQUENESS OF THE CREDIT STRUCTURE

The revenues of the corporation will be derived from the development of the project area. At the outset, there will be various sources of revenue, two major recurring sources and other one-time development revenues. The recurring revenues include payments in lieu of taxes (PILOTs) for the district and future tax equivalency payments (TEP), which consist of property taxes paid to the city from new development in the district. The TEP revenues are assigned to the Hudson Yards Infrastructure Corporation and are subject to annual appropriation. The non-recurring revenue sources include payments in lieu of mortgage recording taxes which are levied on mortgage financing associated with new construction or projects that undergo a significant redevelopment within the district; a density bonus payment (DIB), and certain future development revenue derived from the development potential of the eastern rail yards owned by the Metropolitan Transportation Authority.

Initially the corporation does not expect to receive sufficient revenues from development in the project area to pay debt service. As a result, the City has been authorized by resolution of the City Council to pay the interest costs, net of any available revenues, on up to $3 billion of bonds, subject to annual appropriation. The interest payment dates are February 15 and August 15. The corporation is not obligated to make any payments of principal on its bonds until Net Recurring Revenues (PILOT payments and Tax Equivalency Payments) for the two prior fiscal years reach 125% of MADs on outstanding senior bonds, and 105% of MADs on outstanding senior and subordinate bonds, plus 100% of HYIC expenses for each of the prior two fiscal years. This is referred to as a "conversion test". Prior to "conversion" revenues in excess of bond interest are required to be used for the funding of a one-year interest reserve to amortize bonds on a "turbo" basis. Once this test is met and conversion of the bonds occurs, the bonds will begin amortizing scheduled principal and the City's net interest subsidy will no longer be required. In the event that post-conversion revenues are insufficient to pay interest, the City's interest support obligation would remain in place.

STRONG CITY SUPPORT

The City has a strong economic and financial interest in seeing the project succeed. This is evidenced by the statutory agreement in place to pay the net interest payments until revenues are sufficient to meet debt service costs. Additionally the approvals for land use and environmental impact studies are already in place. The City Council adopted a comprehensive rezoning of the district in January of 2005, in an effort to spearhead the project. Oversight of the district will be undertaken by the Hudson Yards Development Corporation (HYDC), a City created entity to manage the development project. HYDC officers and staff consist of professionals from the Mayors Office of Management and Budget, and the City Law Department. Lastly, the City has committed to numerous real property tax incentives to encourage initial development.

STRESS TESTS

Moody's reviewed the financing schedule and analyzed a range of stress tests on the projected revenues. The deal was subjected to numerous stresses on revenue projections, time lags in the revenue collections, and the general economic growth assumptions of New York City. In our analyses we found the deal could survive a stress of 70% realization of revenue projections, a 5 year lag in revenue collections, and 2% economic growth (vs. a 4% historic real property tax growth rate), which we viewed as a moderate stress but not severe. We also found that the project could fully pay interest and principal on the scheduled maturities with variations of some of the stresses such as 100% realization of revenues, a 15 year lag in collections and 3% economic growth. However, it could not survive a prolonged lag in revenue collections, minimal economic growth and depressed revenue projections in aggregate.

CITY ECONOMIC CONDITION A FACTOR IN THE RATING

Moody's views the net interest payment provided by the City as an appropriation obligation, which is generally notched off of the underlying credit quality of the appropriating entity, in this case New York City which is rated A1. The rating outlook for the New York City general obligations is stable. The city's economic recovery is boosting city revenues, but job growth continues to lag the nation. The City ended fiscal 2006 with over $6 billion in additional revenue. Strong revenue trends, accumulating general fund reserves and an improving liquidity position has improved the City's fiscal outlook. However New York City's exposure to potential fiscal stress is considered above-average, primarily reflecting its heavy economic and revenue reliance on the volatile securities and financial services industry.

Outlook

The outlook on the Hudson Yards Infrastructure Corporation is stable based on the essentiality of the project and the strong vested interest and support of the City of New York. Moody's views the nature of the project not without risk, particularly the uncertainty of future real estate demand. However, it is our belief that the City will be an active manager allowing for the mitigation of future problems in an effective manner.

What could change the rating up

- Rapid development of the district resulting in growth ahead of projections

What could change the rating down:

-Deterioration in the city's financial condition

- Extraordinary delays in completion of the subway line extension

- A prolonged real estate recession that slowed development and construction in the district

- Weakened political support for the project if delays or mismanagement forced increased City financial commitments

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