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New York City's 2014 D-1 And D-2 GO Bonds Rated 'AA'; Parity GO Debt Rating Affirmed At 'AA'

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NEW YORK (Standard & Poor's) Sept. 23, 2013--Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to New York City's fiscal 2014 subseries D-1 tax-exempt bonds and subseries D-2 taxable general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt. The ratings are pursuant to our recently released local GO criteria.

The city's faith, credit, and unlimited ad valorem pledge secures the bonds. Bondholders benefit from the security of the general debt service fund established by state statute, with city real estate tax revenue deposited into the fund and retained under a statutory formula in an amount sufficient to cover debt service.

Concurrent with the sale of these bonds, New York City plans to issue up to \$400 million of new money variable-rate demand bonds backed by liquidity facilities. The fixed and variable-rate bonds will provide new money in furtherance of the city's capital improvement plan. In addition, New York City plans to convert certain maturities of its fiscal 2003 subseries C-A bonds and fiscal 2006 subseries H-A bonds outstanding from variable to fixed rate. Upon successful conversion, Standard & Poor's will assign the city GO rating to the converted bonds.

"The 'AA' rating reflects our assessment of New York City's broad and diverse economy considering its status as the nation's largest city and economic

center," said Standard & Poor's credit analyst Lindsay Wilhelm.

The rating also reflects our view of the city's:

- Adequate budgetary flexibility given limitations on the city's ability to maintain general fund reserves under the Financial Emergency Act, offset by New York City's historical trend of using surplus to prepay subsequent years expenditures;
- Adequate budgetary performance in the general and total governmental funds in fiscal 2012;
- Very strong liquidity when highly liquid investments and exceptional access to external support are considered;
- Very strong management given the city's well-established policies and practices;
- Very weak debt and contingent liability position pressured by significant unfunded pension and other postemployment benefit liabilities; and
- Strong institutional framework.

The stable outlook reflects what we view as New York City's deep and diverse economy and status as the nation's largest employment center. Strong and tested financial management policies and practices further support the rating. We view these factors, together with the city's very strong liquidity position -- but offset by its very weak debt and contingent liability profile -- as stable over the two-year outlook horizon. We therefore expect that future rating direction will be linked to the city's budgetary flexibility and performance. We believe that a new administration could have an influence, either positive or negative, on these factors if it pursues significant structural changes. Upward rating potential is limited to one notch given the city's very high debt burden, but could occur based on strong and concrete evidence of structural improvement in the city's general and governmental fund positions. Conversely, downward rating pressure could stem from weaker structural alignment and diminished budgetary flexibility, though we view this as unlikely due to the city's track record of budgetary balance.

RELATED CRITERIA AND RESEARCH

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: New York Local Governments, Sept. 12, 2013

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