Moody's assigns Aa2 to $700M of NYC GO refunding bonds; outlook stable

05 Dec 2013

$40.7 billion of GO debt outstanding

New York, December 05, 2013 --

Moody's Rating

Issue: General Obligation Bonds, Fiscal 2014 Series G; Rating: Aa2; Sale Amount: $650,000,000; Expected Sale Date: 12-10-2013; Rating Description: General Obligation

Issue: General Obligation Bonds, Fiscal 2014 Series H; Rating: Aa2; Sale Amount: $50,000,000; Expected Sale Date: 12-10-2013; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned Aa2 ratings to $700 million of City of New York general obligation bonds, consisting of $650 million Fiscal 2014 Series G and $50 million Series H. Proceeds of the bonds, scheduled to price on December 10, will be used to refund various outstanding general obligation bonds for debt service savings.

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 ongoing need to close outyear budget gaps

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

OUTLOOK

The outlook for New York City's general obligation bonds is stable. The city's institutionalized budgetary controls and early recognition of future budget pressure help it maintain a balanced financial position and weather economic downturns. The city's economy is reliant on a volatile financial services sector, but it continues to diversify and its finances will benefit. Despite its strong budgetary controls, mounting costs for debt service, pensions and retiree health care will continue to be a challenge for the city.

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

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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