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Fitch Rates Sales Tax Asset Receivable Corp. $2B Revenue Bonds 'AA+'; Outlook Stable Ratings Endorsement Policy
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Fitch Ratings-New York-04 September 2014: Fitch Ratings assigns an 'AA+' rating to the following bonds of the Sales Tax Asset Receivable Corporation (STAR Corporation):

--$2 billion sales tax asset revenue bonds, fiscal 2015 series A.

The bonds, which are being issued to redeem all outstanding sales tax asset revenue (STAR) bonds and to defease certain maturities of New York City Transitional Finance Authority future tax secured bonds, are scheduled to be sold through negotiated sale on Sept. 23, 2014.

In addition, Fitch affirms the 'AA+' rating on outstanding bonds of STAR and the New York State Local Government Assistance Corporation (LGAC).

The Rating Outlook is Stable.

SECURITY

STAR bonds are special obligations of the corporation secured by a $170 million annual state payment from revenues dedicated to the New York Local Government Assistance Corporation (LGAC), on a subordinate basis to LGAC's senior and subordinate lien debt and subject to annual state appropriation.

KEY RATING DRIVERS

GENERAL STATE CREDIT QUALITY: The rating on STAR bonds is linked to the GO rating of the state of New York. The designated source of payment, a portion of the state sales tax, is broad-based and provides generous coverage of debt service. Although bond payments require annual state legislative appropriation, strong protective provisions for insufficient funding and non-appropriation, in Fitch's view, effectively eliminate the risk of non-appropriation, supporting a rating on par with the state's GO rating.

SUSTAINABLE STATE BUDGETING PRACTICES: New York State's GO rating reflects the improved fiscal management practices of recent years that have resulted in timely and more sustainable budget-making. Notable recurring actions were taken to close budget gaps in the downturn, and in the recovery the state has limited the growth in spending.

WEALTHY ECONOMY LINKED TO FINANCIAL SERVICES: New York's economy is broad, with substantial wealth and resources. The financial activities sector is significant to the state's economy and finances, although it is prone to above-average cyclicality.

STRONG STATE FINANCIAL PLANNING AND REPORTING: The state stays abreast of changing conditions through comprehensive quarterly updates of a four-year financial plan.

MODERATE STATE LIABILITY BURDEN: New York's debt burden is above average but still in the moderate range, and the burden of debt has fallen in recent years. Pensions are well funded, with the unfunded liability below the median. On a combined basis, the burden of debt and pensions is moderate, matching the national median.

RATING SENSITIVITIES

GENERAL STATE CREDIT QUALITY: The rating is driven by the general credit quality of the State of New York as reflected in its GO rating.

CREDIT PROFILE

The strength of the state's incentive to appropriate debt service for the STAR bonds as well as for senior and subordinate bonds of LGAC results in a rating equal to that assigned to New York State's GO debt, despite the appropriation requirement for payment of debt service. The current sale is intended to redeem all $2 billion in outstanding STAR bonds, eliminate the debt service reserve fund and enable the Transitional Finance Authority to defease certain of its future tax-secured revenue bonds maturing during city fiscal years 2016-2018. Elimination of the bonds' debt service reserve is not a credit concern given timing provisions and the bonds' strong coverage.

STAR bonds are paid by a $170 million annual allocation of LGAC's dedicated revenue stream, on a subordinate basis to payment of debt service on LGAC's own senior and subordinate bonds. In the event of non-appropriation, the state general fund would be unable to receive residual revenues held by the LGAC tax fund, to which one cent of the state's four cent sales tax is deposited. Residual revenues after LGAC and STAR bond debt service contributed approximately $2.4 billion (as of fiscal 2014) to the state general fund. In Fitch's view, these protections effectively eliminate the risk of non-appropriation and support a rating on par with the state's 'AA+' GO bond rating.

Security strengths include the broad sales tax base dedicated to the bonds, the consistently high level of coverage (about 5.4x) MADS on

STAR and LGAC bonds together, based on fiscal 2014 revenues), and the structural protections noted above. Additionally, authorizing legislation includes strong non-impairment language for LGAC and STAR. Fitch does not make a rating distinction among the LGAC senior and subordinate liens and the STAR bonds due to the strong impoundment provision noted earlier and the consistently high coverage.

The state retains the right to adjust the sales tax rate and base, although sales taxes in general are a broad and relatively stable source of support. New York State levies a sales and compensating use tax rate of 4% statewide, with a variety of exemptions and other adjustments. Growth of the 1% sales tax dedicated to the LGAC fund averaged 3.5% between fiscal year 1994 - 2014 (unadjusted for tax rate and base changes); the 1% sales tax grew 4.9% in fiscal 2014, to $2.9 billion. The steepest one-year decline, in fiscal 2007, totaled 3.9%.

The STAR Corporation was created pursuant to state legislation in 2004 to provide New York City with budget relief. Proceeds of the original offerings were used to refund $2.5 billion in bonds remaining at the time from the Municipal Assistance Corporation for the City of New York, stretching the final maturity from 2008 to 2034. Although initially enacted over the governor's veto, the bonds' structure was ultimately upheld by the state Court of Appeals.

LGAC was created in 1990 as a means of financing $4.7 billion of the state's accrued general fund deficit, replacing the state's annual spring borrowing for local aid payments. The entire $4.7 billion authorization was issued by 1996 and additional debt can only be issued for refunding purposes; about $2.6 billion remained outstanding as of March 31, 2014.

New York State's 'AA+' GO rating, which was upgraded from 'AA' on June 20, 2014, is based on the state's strong fiscal management and Fitch's expectation that the state will adhere to its currently strong fiscal and budget management practices going forward. The state has benefited in recent years from a wide range of improved budget practices, including on-time budget enactment, consensus revenue forecasting, and curbs on expenditure growth, while avoiding significant reliance on onetime resources. These practices result, in Fitch's view, in more sustainable budget performance compared to the state's earlier fiscal practices, in which the state relied on non-recurring actions to cover persistent structural spending pressures and to respond to severe, recession-driven revenue cyclicality.

Fiscal management improvements remain untested by a severe recessionary event, but in Fitch's view the state is in a materially improved position to address future economic and revenue cyclicality. Although the state has built only modest reserves, Fitch believes that with proactive budget management New York continues to have a margin of flexibility to respond to unforeseen economic and revenue weakness beyond the level provided by its reserve balances.

The state's substantial wealth and resources and broad economy remain ongoing credit strengths. The rating continues to recognize the outsized role that the financial activities sector plays in the state's economy and revenue system. State net tax-supported debt levels have been relatively stable as a percentage of personal income. Fitch expects the state's debt levels to remain above average but still in the moderate range. Pensions are well funded, and the combined burden of debt and pensions matches the median for U.S. states rated by Fitch.

For more information on the state's general credit, see Fitch's press release 'Fitch Upgrades New York State GO and Related Bonds to 'AA+'; Outlook Stable' dated 20 June 2014, available on the Fitch web site at 'www.fitchratings.com'.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Laura Porter
Managing Director
+1-212-908-0575

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-0661

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. State Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status