MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to $2B of Sales Tax Asset Receivable refunding bonds created by the City of New York; outlook stable

Global Credit Research - 03 Sep 2014

New York State (the obligor) has $62B in debt outstanding

NEW YORK (STATE OF)
State Governments (including Puerto Rico and US Territories)
NY

Moody's Rating

ISSUE	RATING
Sales Tax Asset Revenue Bonds, Fiscal 2015 Series A	Aa1

Sale Amount	$2,000,000,000
Expected Sale Date	09/23/14
Rating Description	Dependent (Rating moves with Parent)

Moody's Outlook STA

Opinion

NEW YORK, September 03, 2014 --Moody's Investors Service has assigned a Aa1 rating to the Sales Tax Asset Receivable Corporation (STAR), Sales Tax Asset Revenue Bonds Fiscal 2015 Series A. The bonds are issued by the STAR Corporation, which is an instrumentality of the City of New York. Proceeds of the bonds will be used to refund outstanding STAR Fiscal 2005 Series A and B bonds and to retire selected bonds of NYC's Transitional Finance Authority. The bonds are to be sold in a negotiated sale scheduled to price on September 23.

SUMMARY RATING RATIONALE

While the bonds are issued by the STAR Corporation, created by the City of New York, the funds to pay debt service are appropriated in the State of New York's budget. The bonds are therefore treated by Moody's as debt of New York State. The rating reflects the strength of New York State's (Aa1/stable) statutory appropriation mechanism for making required payments to STAR for payment on the bonds, the broad base and high coverage of debt service provided by a dedicated 1% state sales tax revenue stream, and the payment for STAR debt service on a technically subordinated basis to payments to the New York State Local Government Assistance Corporation (whose outstanding bonds are similarly rated Aa1.)

Because only monies appropriated to the corporation and not the sales tax itself are pledged to bond payment, the rating rests on confidence that the state will make the appropriation.

The Aa1 rating on New York State's GO and related debt reflects strengthened fiscal governance, the strength of the recent economic recovery, a sound financial position reflected in improved reserves, and reduced spending growth in line with growth in the state's economic capacity. The rating also recognizes New York State's expensive business environment, reliance on financial services and other NYC-based economic drivers, high state debt burden offset by below-average net pension liabilities, and a history of structural budget gaps requiring reliance on non-recurring resources to achieve budget balance.

Strengths:

* Strong incentive for appropriation.

* Good coverage of debt service.

* Close link to state's strong credit profile

Challenges:

* Security relies on a pledge of payment that is subject to annual appropriation.

* Revenue volatility stemming from the state's dependence on the financial services sector and income taxes combined with limited flexibility in use of budgetary reserves

DETAILED CREDIT ANALYSIS

FISCAL 2015 SERIES A TO REFUND ALL OUTSTANDING STAR DEBT

The Series 2015 bonds will refund all outstanding debt of the STAR Corporation, which consists of Series A and B bonds issued in 2004. The bonds were originally issued to refund outstanding debt of the Municipal Assistance Corporation and secured by a statutory appropriation by the state of $170 million, for the purpose of providing fiscal relief to New York City in the aftermath of 9/11 and the recession of the early 2000s. The STAR Corp. is a private not-for-profit corporation set up by the City under the Not-For Profit Corporation Law of the state of New York. The corporation is a special purpose vehicle with no other assets or responsibilities other than to receive the statutory payments of $170 million per year from the state of New York via the Local Government Assistance Tax Fund. STAR is required to take these payments, which are assigned to it by NYC, and use them to make debt service payments on bonds that it issues.

STAR PAYMENTS BASED ON LGAC PAYMENT MECHANISM

The STAR credit structure is governed by the Local Government Assistance Corporation (LGAC) (Aa1) structure. The Local Government Assistance Tax Fund (LGATF) receives 1 cent ("1%") of the state's 4% statewide sales tax and uses that to first pay debt service on outstanding LGAC bonds. STAR corporation payments are subordinate to LGAC debt service, including any swap payments.

The payment mechanism provides strong incentives to appropriate sufficient funds and make timely payments to satisfy LGAC obligations, including STAR payments. Monies from the 1% dedication in excess of the debt service on LGAC bonds and the STAR payments are available to the state for other purposes only after an appropriation for all LGAC and STAR debt service is made. While the legislature has no obligation to appropriate the funds, this structure provides a very strong incentive to appropriate since the state relies on the excess revenues to meet its budgetary needs. Furthermore, similar provisions apply to other significant borrowing vehicles of the state, including Personal Income Tax Revenue (PIT) bonds which are the primarily means by which the state accesses the capital markets because of the requirement that general obligation debt be approved by the voters. Failure to appropriate would compromise the state's ability to borrow for its capital needs.

Providing additional bondholder protection, the state comptroller is required to transfer funds from the general fund to satisfy debt service requirements if the appropriated and certified sales tax receipts set aside are insufficient to make the scheduled payments on LGAC obligations. The state comptroller is empowered to do so without further appropriation. Furthermore, the state makes a contingency debt service appropriation to cover any potential unexpected debt service costs and would address unexpected LGAC costs from swap termination payments, eliminating the need for mid-year appropriations if such a contingency arose. However, if appropriations are insufficient to pay debt service on the state's general obligation bonds, the state comptroller is also empowered to direct first revenues applicable to the general fund of the state to that purpose. If those revenues are insufficient, it is possible that the state comptroller would be required to transfer funds from dedicated tax funds to pay general obligation debt service. We consider the likelihood of this occurring as very remote and such power has not been tested in court.

STRONG COVERAGE OF LGAC OBLIGATIONS BY SALES TAX REVENUES

LGATF received about $2.95 billion in sales tax in 2014, of which about $400 million was needed to pay the debt service on about $4.5 billion of outstanding LGAC bonds. With the additional $170 million STAR payment coverage of maximum annual debt service of these two obligations combined was about 4.6 times revenues.

REFUNDING BONDS ELIMINATE DEBT SERVICE RESERVE

The Fiscal 2005 Series A and B bonds have had the additional security of a debt service reserve fund. The current transaction would eliminate the reserve. In our opinion, given the strength of the appropriation mechanism, including the requirement that the Comptroller transfer funds from the general fund if necessary, the debt service reserve fund is not a material rating factor.

LGAC FUND SEPARATE AND DISTINCT FROM SALES TAX BOND FUND

The state also segregates 1 cent of its sales tax receipts into the sales tax revenue bond tax fund (STRBTF) to secure its sales tax revenue bonds, issued by various state authorities. The LGATF is a separate and distinct fund and the STRBTF has no prior claim on the receipts deposited into the LGATF. Upon final maturity of the LGAC bonds in 2025, LGAC will continue to receive the dedicated 1 cent of sales tax revenues and make the $170 million STAR payment. Separately, an additional 1 cent of sales tax revenue will be added to the existing dedication to the STRBTF.

RATING CAPPED AT STATE GO RATING

We consider the security for the STAR bonds to be very strong. However, the lack of an explicit pledge of revenues, the appropriation requirement and the potential, however remote, that the LGATF could be drawn upon to satisfy GO obligations prevent the security from meeting the criteria to "pierce" the state's GO rating. As such, we view this rating as capped at the state GO rating. We recently upgraded the state's GO rating to Aa1. Please see our June 16 report for an extensive discussion of the state's rating.

RECENT DEVELOPMENTS FOR NEW YORK STATE

Since the close of the 2014 fiscal year on March 31, the state has benefited from sizable penalties levied on financial firms resulting from legal settlements. The settlements have resulted in payments, or payments due, to the state approximating $6 billion. Decisions regarding the use of the proceeds will be made during the course of the next legislative session, so the impact on the state's financial results are unknown at this time.

In August, the Comptroller released financial statements for fiscal 2014 showing that the state ended fiscal 2014 with a $172 million general fund GAAP surplus and a $2.2 billion cash balance. However, the state's available balances, calculated as its reserves plus its unassigned fund balance, deteriorated to about -$3 billion from about -$2.2 billion in fiscal 2013 stemming from a year-over-year decline in personal income tax revenues.

WHAT COULD MAKE THE RATING GO UP

*Change in the legal security providing for direct pledge of segregated sales tax revenues without annual appropriation requirement

* State rating upgrade

WHAT COULD MAKE THE RATING GO DOWN

* Failure to follow sales tax set-aside procedures

* Failure to appropriate LGAC payments

* State rating downgrade

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. The additional methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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