STANDARD & POOR'S
RATINGS SERVICES
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Summary:

New York City; General Obligation; Joint Criteria

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Credit Profile		
US$750.0 mil tax-exempt GO bnds ser 2015C		
Long Term Rating	AA/Stable	New
US$103.16 mil GO var rate dem bnds (taxable) ser J-12 due 08/01/2029		
Long Term Rating	AA/Stable	New
US$100.0 mil taxable GO bnds ser 2015E		
Long Term Rating	AA/Stable	New
US$50.0 mil tax-exempt GO bnds ser 2015D		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to New York City's fiscal 2015 series C and D tax-exempt and fiscal 2015 series E taxable general obligation (GO) bonds. The bonds will be issued as multi-modal bonds in the fixed rate mode.

At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the city's GO debt outstanding and its 'A+' rating on the New York City Health and Hospital Corp.'s (HHC) debt outstanding.

The city's faith, credit, and unlimited ad valorem pledge secure the GO 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. We understand that officials plan to use proceeds of the fiscal 2015 series C and D bonds to refund various bond series for interest rate savings and proceeds of the series E bonds to provide new money for discrete capital purposes.

The rating on the HHC bonds reflects the city's moral obligation pledge which, in our opinion, is enhanced by the strong legal structure that requires the direct flow of pledged revenues to HHC Capital Corp. Revenues are set aside for debt service before flowing to HHC for operating purposes. In addition, the close linkages between New York City and HHC, including the direct issuance of city GO bonds for HHC projects, and the essential nature of the services that HHC provides, further support the rating.

The outlook on all ratings is stable.

The 'AA' GO rating reflects our view of New York City's:

- Strong, broad, and diverse economy, given its status as the nation's largest city and economic center;
- Strong budgetary flexibility through fiscal 2014 despite limitations on the city's ability to maintain general fund reserves under the Financial Emergency Act, which the city has adjusted for by using surplus to prepay subsequent-year expenditures;

- Adequate budgetary performance in fiscal 2014, which we expect will continue based on the city's financial projections and history of closing out-year budget gaps;
- Very strong liquidity when considering highly liquid investments and exceptional access to external liquidity;
- Very strong management conditions, given the city's well-established policies and practices;
- Very weak debt and contingent liability profile, pressured by significant unfunded pension and other postemployment benefit (OPEB) liabilities that contribute to elevated fixed costs; and
- Very strong Institutional Framework.

Strong economy

In our opinion, New York City's economy is strong, broad, and diverse, given its status as the nation's largest city and economic center. With an estimated population of 8.4 million residents, New York City is the most populous city in the nation and continues to grow. Its major employment sectors continue to comprise trade, financial activities, professional services, education, health services, and government. New York City's projected per capita effective buying income is 104.8% of that of the U.S., while market value per capita is $111,609 based on the 2015 market value. The financial sector continues to play a major role in the city economy, representing 26.5% of total city wages and 11.0% of total employment in 2013. New York City's unemployment rate averaged 8.8% in 2013, exceeding both the state and national rates, but was down from 9.4% in 2012.

Strong budgetary flexibility

The city's budgetary flexibility is strong, in our view. The Financial Emergency Act limits the city's ability to maintain reserves from current-year revenue, translating into zero dollars in available general fund balance at fiscal year-end. In response, New York City has historically used its surplus in the fourth quarter of each year to prepay subsequent-year expenditures (primarily debt service). We view these prepayments as a form of reserve balance, and a significant reduction in prepayments could put downward pressure on the rating. The city also funds a discretionary reserve for future retirees' health insurance costs. Combined, the fiscal 2014 budget stabilization contributions ($1.98 billion) and the reserve for retirees' health insurance costs ($1.86 billion) represented 5.3% of adjusted general fund expenditures. While the city is currently projecting a lower budget stabilization prepayment in fiscal 2015, we note that the projection has historically improved as the city's fiscal year progresses.

We believe that, despite statutory limitations on its major revenue sources, New York City retains a degree of additional budgetary flexibility, based on its track record of receiving state legislative approval for proposed revenue increases. In our opinion, legislative approval has proven a lower hurdle than direct-voter approval. In addition, we believe the city has historically made these revenue requests sparingly and, as a result, has demonstrated success in obtaining legislative approvals or otherwise making adjustments when needed. Although the state did not agree to Mayor de Blasio's proposed tax increase of 0.534% for households earning more than $500,000 per year, it did provide funding for the city's universal pre-kindergarten initiative, which we believe supports this assessment.

Adequate budgetary performance

We consider New York City's budgetary performance adequate, with nearly balanced general fund operations in 2014 after discretionary transfers –- in compliance with the Fiscal Emergency Act -- and a slight, 1.4% deficit in the city's total governmental funds performance (after adjusting for reimbursements to the New York City central treasury for capital expenditures). Fiscal 2014 results reflected a $1.98 billion debt prepayment for fiscal 2015 budget stabilization (relative to $2.7 billion in fiscal 2013); an $864 million increase in the reserve for future retirees' health insurance costs;

and approximately $1.9 billion in additional expenditures for costs associated with labor settlements.

Based on the February financial plan forecast provided to the control board, officials are currently projecting a reduction in the fiscal 2016 budget stabilization contribution to $1.6 billion, though we note that this number generally grows as the fiscal year progresses. The mayor's preliminary fiscal 2016 budget is balanced in accordance with generally accepted accounting principles (except for the application of the Governmental Accounting Standards Board Statement No. 49) at $77.7 billion with the aforementioned fiscal 2015 budget stabilization prepayment, successfully closing a $1.8 billion gap identified in the November 2014 financial plan due, in large part, to the prepayment as well as strong revenue performance. The city has also reduced its out-year plan gaps as of the February 2015 plan to $1.048 billion in fiscal 2017, $1.370 billion in fiscal 2018, and $2.074 billion in fiscal 2019. These gaps remain below historical averages, despite including the costs of collective bargaining settlements and lump sum payments in fiscal years 2017 and 2019.

Very strong liquidity

We view New York City's liquidity position as very strong. Total governmental cash and liquid investments grew to 16.8% of total governmental fund expenditures in fiscal 2014, and 171% of debt service based on the city's strong revenue performance. In addition, New York City has demonstrated that it has exceptional access to capital markets based on its frequent debt issues backed by multiple security types. In our opinion, the city has limited exposure to contingent liability risk, despite its variable-rate debt portfolio, based on our understanding that acceleration is not a permissible remedy in any of the liquidity facilities in an event of a default.

Very strong management conditions

We view New York City's management conditions as very strong, with strong policies and practices. These practices include detailed long-term financial plans shared with the public, annual audit reports, and frequent reporting to the city council and state authorities. We believe these practices are strong, well-embedded, and sustainable in the long term.

Very weak debt and contingent liability profile

In our opinion, New York City's debt and contingent liability profile is very weak when considering the city's significant pension and OPEB costs. Total governmental funds debt service (including lease payments) represented 9.8% of governmental funds expenditures in 2014, while net direct debt is 87% of total governmental funds revenue. Amortization is average, in our view, with approximately 50% of debt retiring in 10 years. We estimate overall net debt at 7% of market value.

The city's pension and OPEB fixed costs remain substantial, in our opinion, representing 14.7% of total governmental expenditures in fiscal 2014. We believe that this represents a significant share of the city's budget and remains a source of pressure. While the city is fully funding its annual required pension contribution, OPEB costs are funded on a pay-as-you-go basis. Although the health plan modifications agreed to with the Municipal Labor Committee could lead to a reduction in the OPEB liability, we believe the liability will remain substantial given the level of benefits provided, coupled with volatility in health care costs, unless further action is taken. We estimate that combined debt service, pension, and OPEB fixed costs were 24.5% of total governmental expenditures in fiscal 2014, which we consider elevated.

Very strong Institutional Framework

The Institutional Framework score for New York City is very strong, reflecting the demonstrated success of the state's ad hoc, but tested, support mechanisms during the city's past periods of fiscal stress (see "Institutional Framework Overview: New York Local Governments").

Outlook

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 believe these factors, together with the city's very strong liquidity position--but offset by its very weak debt and contingent liability profile--will be stable over the two-year outlook horizon. We believe that the city's currently projected budget gaps in fiscal years 2017-2019 are manageable, relative to historically projected gaps, if favorable economic conditions continue. However, should economic conditions deteriorate significantly, we believe that New York City could be challenged to make corresponding budget adjustments to maintain a stable financial position given its fixed cost structure. An ongoing period of structural misalignment could lead to our lowering the rating. Conversely, maintenance of a stable financial position coupled with improved flexibility in the city's cost structure, and a reduction in its debt and contingent liability profile could lead to an upgrade, in our view.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Moral Obligation Bonds, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New York Local Governments

Ratings Detail (As Of March 10, 2015)		
New York City GO		
Long Term Rating	AA/Stable	Affirmed
New York City adj rate fiscal 94 E-3		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City adj rate GO fiscal ser 2012 subseries A-3		
Long Term Rating	AA/A-1/Stable	Affirmed
New York City adj rate GO fiscal 2008 ser L subseries L-3		
Long Term Rating	AA/A-1/Stable	Affirmed
New York City adj rate GO fiscal 94 ser C		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of March 10, 2015) (cont.)		
New York City adj rate GO fiscal 94 ser E-2		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO adj rate		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO fiscal 2009 ser B subseries B-3		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO fiscal 2010 subser G-4 ser G-4		
Long Term Rating	AA/A-1/Watch Neg	Affirmed
New York City GO ser 1993 B		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO ser 2012 G-3		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO ser 2012 G-5		
Long Term Rating	AA/A-1+/Stable	Affirmed
New York City GO ser 2012 G-6		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO ser 2012 G-7		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO FRN bnds subseries J-9 ser 2008J		
Long Term Rating	AA/Stable	Affirmed
New York City GO VRDB Subseries J-10 ser 2008J		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO (wrap of insured) (MBIA) (AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO (ASSURED) (MBIA)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO (Fiscal 1996) Subser J-1 (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City adj rate fiscal 94 ser H subser H-3 dtd		

Ratings Detail (As Of March 10, 2015) (cont.)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Long Term Rating	AA/A-1+/Stable	Affirmed
New York City GO		
Unenhanced Rating	NR(SPUR)	
New York City GO adj rate		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City (Fiscal 95) Tax-Exempt Adj Rate Ser B Subser B-4		
Unenhanced Rating	NR(SPUR)	
Long Term Rating	AA/A-1/Stable	Affirmed
New York City Hlth & Hosp Corp, New York		
New York City, New York		
New York City Health & Hospital Corporation (New York City) hlth sys - 2008B		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York City Health & Hospital Corporation (New York City) hlth sys - 2008C		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York City Health & Hospital Corporation (New York City) hlth sys - 2008D		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York City Health & Hospital Corporation (New York City) hlth sys - 2008E		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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